

T-Mobile Holdings Limited

(formerly Deutsche Telekom Mobile Holdings Limited)

Annual Report for the year ended 31 December 2001

Company registration number: 3836708



Directors' report

The directors present their annual report and the audited financial statements of the company for the year ended 31 December 2001.

Principal activities

The company's principal business activities are those of a holding company. No change in these activities is expected in the coming year.

Review of business

The company owns T-Mobile No. 5 Limited (formerly Deutsche Telekom Mobile No. 5 Limited), T-Mobile No. 1 Limited (formerly Deutsche Telekom Mobile Number 1 Limited) and T-Mobile (UK) Limited (formerly and One 2 One Personal Communications Limited). These three companies ("the partner companies") in turn own a Partnership called T-Mobile (UK) (formerly One 2 One Partnership), henceforth referred to as the "Partnership".

The principal activity of the Partnership is the design, development, construction, installation, ownership, operation, running, maintenance and marketing of a Personal Communications Network ("PCN"), the provision of services by means of the PCN, and the marketing of such services. The Partnership also acts as a distributor for mobile phones designed for use on its network.

Since the launch in 1993, the Partnership has continued to rollout its network and now offers service to approximately 99% of the population of the United Kingdom with over 8.8 million customers at 31 December 2001 (31 December 2000 – 8.3 million). At 31 December 2001, the Partnership had invested £2.6 billion in the rollout of the network.

The rate of subscriber growth has slowed during the year as a result of the UK telecommunications market approaching maturity. It is estimated that mobile telecommunications UK market penetration was 77% at 31 December 2001. The Partnership Board expects the Partnership will continue to incur net losses and to have significant net liabilities while it completes the development of its business.

The Partnership's banking facilities are subject to a number of financial covenants. However, the Partnership Board believe that waivers will be forthcoming if needed or facilities will be renegotiated so that covenants will not be breached.

The Partnership owns one of five licences issued by the UK government for blocks of spectrum to allow operators to offer third generation mobile services. This licence runs until 31 December 2021. Third generation mobile services will provide users with superior voice quality, broadband data services like video and multimedia together with enhanced roaming capability.

The company has made investments in the telecommunications market through the acquisition of the partner companies in the Partnership and by funding the acquisition of the third generation mobile service licence. Management recognise the fact that there are a number of inherent risks and issues in this market and, in accordance with FRS11 ("Impairment of fixed assets and goodwill"), conducted an impairment review of its investments as at 31 December 2001 in which the carrying value of the investments were compared to their recoverable amount and to the level of expected future cash flows in the partner companies and the Partnership. A reduction in the carrying amount of £1,484 million was recognised against the fixed asset investments in the partner companies. Details of the impairment review performed are described further in Note 3.

Directors' report

Review of business (continued)

On 22nd November 2001 the Partnership announced that it was to perform a business review with the aim of improving efficiency of the business operations by reducing U.K. staff numbers by 900. As a result of this review 460 employees took voluntary redundancy and 165 were given notice of compulsory redundancy. Of those given notice of compulsory redundancy, 71 have since accepted alternative positions within the business. The rest of the job cuts were achieved by shedding temporary staff and contractors and unfilled vacancies.

On 29 June 2001 the company issued 9 million ordinary £1 shares to T-Mobile International A.G. for a total consideration of £1,999,252,892 at a subscription price of £222.14 per share. A loan from T-Mobile International A.G. of £1,999,252,892 was repaid on 29 June 2001 with the proceeds from the share issue.

The profit and loss account of the financial statements is set out on page 6.

Future developments

The Partnership expects to continue to invest significantly in its network enhancement programme - expanding coverage, both nationally and internationally, and continuing to improve overall service quality.

On 18 April 2002 the Partnership was rebranded. The One 2 One brand was replaced with that of T-Mobile. As a result of the re-branding the company name was changed on 30 March 2002 from Deutsche Telekom Mobile Holdings Limited to T-Mobile Holdings Limited. On the same date Deutsche Telekom Mobile Number 1 Limited was renamed T-Mobile No.1 Limited, Deutsche Telekom No. 5 Limited was renamed T-Mobile No.5 Limited, and on 18 April 2002, One 2 One Personal Communications Limited was renamed T-Mobile (UK) Limited. The Partnership name also changed from the One 2 One Partnership to the T-Mobile (UK) Partnership.

Results

The company made a loss of £1,236 million in the year. The directors do not recommend the payment of a dividend.

Charitable and political contributions

The company made no charitable or political contributions in the year.

Board of directors

The directors of the company as at 31 December 2001 and during the year were as follows:

Dr. K. Hofmann	Chairman	(resigned 3 April 2001)
M. Gunther		(resigned 14 September 2001)
K. Heppner		(appointed 4 April 2001, resigned 14 September 2001)
F. Stoffer		
U. Kuhbacher		(appointed 15 September 2001)
N. Kireth	Chairman	(appointed 26 September 2001)

None of the directors or their families held an interest in the company at the end of the year.

Directors' report (continued)

Board of directors (continued)

There were no contracts of significance subsisting during or at the end of the financial year in which a director had a beneficial interest.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2001 and that applicable accounting standards have been followed.

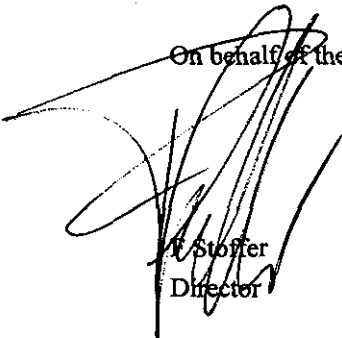
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The auditors PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution that they may be re-appointed will be proposed at the Annual General Meeting.

Imperial Place
Maxwell Road
Borehamwood
Herts WD6 1EA

On behalf of the Board,



T. Stoffer
Director

18th July 2002

Auditors' report

To the shareholders of T-Mobile Holdings Limited:

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes on pages 6 to 15 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards as set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental uncertainty

In forming our opinion we have considered the adequacy of the disclosures made in the financial statements concerning the following matters:

1. The carrying amounts of the company's investments and amounts recoverable from group undertakings as at 31 December 2001 have been reduced to an amount derived from a discounted cash flow model. Inherent in this model are assumptions relating to future industry, technology, market and business developments which are subject to uncertainty. Although management believes that the expectations reflected in these forward-looking assumptions are reasonable, it can give no assurances that these expectations will prove to be accurate. Because of these uncertainties, actual future results, and consequently cash flows may differ from the assumptions used in performing the impairment

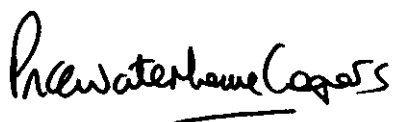
Auditors' report

evaluation of the company's investments and the amounts recoverable from group undertakings. Details of the circumstances relating to this fundamental uncertainty are described in Note 3. Our opinion is not qualified in this respect.

2. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available, including the reliance on assurances received from the immediate parent company that it will continue to support the company for the foreseeable future. The financial statements do not include any adjustments that would result from a failure to obtain such funding. Details of the circumstances relating to this fundamental uncertainty are described in Note 1. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the company's state of affairs at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place
London WC2N 6RH

18 July 2002

Profit and loss account

For the year ended 31 December 2001

	Notes	Year ended 31 December 2001 £'000	Period ended 31 December 2000 £'000
Operating expenses		(8)	(666)
Diminution in value of fixed asset investments	3	(1,483,709)	-
Operating loss	2	<u>(1,483,717)</u>	<u>(666)</u>
Interest receivable and similar income	5	247,919	176,357
(Loss)/profit on ordinary activities before taxation		<u>(1,235,798)</u>	<u>175,691</u>
Taxation on (loss)/profit on ordinary activities	6	-	-
(Loss)/profit on ordinary activities after taxation (being (loss)/profit for the financial year/period)		<u><u>(1,235,798)</u></u>	<u><u>175,691</u></u>

There are no recognised gains or losses in the year other than the loss above and therefore no separate statement of total recognised gains and losses has been prepared.

The accounts have been prepared using the historical cost convention and no asset re-valuations have taken place. There is therefore no difference between the loss on ordinary activities before and after taxation for the financial periods stated above and their historical cost equivalent.

The results above all arise from continuing operations.

The movements in reserves is shown in note 12.

The accompanying notes on pages 8 to 15 are an integral part of these financial statements.

Balance sheet

31 December 2001

	Notes	31 December 2001 £'000	31 December 2000 £'000
Fixed asset investments	7	8,963,378	10,447,087
Current assets			
Debtors due within one year	8	424,275	176,357
Debtors due after more than one year	9	4,151,366	4,151,366
		<u>4,575,641</u>	<u>4,327,723</u>
Current liabilities			
Amounts falling due within one year	10	(3,751,471)	(5,750,716)
Net current assets/(liabilities)		<u>824,170</u>	<u>(1,422,993)</u>
Net assets		<u>9,787,548</u>	<u>9,024,094</u>
Capital and reserves			
Called-up share capital	11	706,540	697,540
Share premium account	12	10,141,115	8,150,863
Profit and loss account	12	(1,060,107)	175,691
Equity shareholders' funds	13	<u>9,787,548</u>	<u>9,024,094</u>

These financial statements on pages 6 to 15 were approved by the Board of Directors on 17th July 2002 and signed on their behalf by:

F. Stoffer

Director

The accompanying notes on pages 8 to 15 are an integral part of these financial statements.

Notes to the accounts

1 Principal accounting policies

A summary of the principal accounting policies of the company, all of which have been applied consistently throughout the year, is set out below. FRS 18 ("Accounting Policies") was adopted in the year but this did not require any change in accounting policies.

a) Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards on the historical cost basis.

b) Investments

In accordance with FRS 11 ("Impairment of fixed assets and goodwill") the company's investments 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 investment or disposal value if higher.

c) Taxation

Corporation tax payable by the company is provided on taxable profits at the current rate.

Deferred tax is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

d) Consolidation

Under Section 228 of the Companies Act 1985, the company is exempt from preparing consolidated financial statements as the company is included in the consolidated financial statements of the ultimate parent company, Deutsche Telekom AG. Deutsche Telekom AG is incorporated in Germany, a member state of the EEA and its audited financial statements are drawn up to 31 December 2001.

e) Going concern

Although at 31 December 2001 the company had net current assets, significant amounts are recoverable from the Partnership which has net liabilities. T-Mobile Holdings Limited has received assurances from its immediate parent company, T-Mobile International AG, that it will continue to support the company for the foreseeable future such that if immediate repayment of any of the loan facilities is required, equivalent funding will be provided to replace the facility. Accordingly the financial statements have been prepared on a going concern basis.

2 Operating loss

Auditors' remuneration for the year ended 31 December 2001 totalled £6,000 (31 December 2000 - £5,400) for audit services, and £20,649 (31 December 2000 - £494,902) for non-audit services which were incurred in relation to tax consultation during the year. The audit fee is borne by the Partnership and no recharge is made. The company had no employees other than directors who were not remunerated for their services (see note 4).

Notes to the accounts (continued)

3 Permanent diminution in the value of fixed asset investments

The company has made investments in the wireless market through the acquisition of the partner companies in the Partnership and by funding the acquisition of a 3G licence by the Partnership. This market is evolving rapidly and there are a number of inherent features in this market which create a substantial level of uncertainty in relation to the recoverability of the amounts invested. These include:

- the ultimate size of the market
- the nature and extent of competition and / or regulation in the market
- the availability of sites and network infrastructure
- the cost of rolling out the services customers demand
- the nature of services and amounts which customers are prepared to pay for such services
- the timing of availability of service
- the ability of the Partnership and equipment manufacturers to resolve current technical challenges relating to network components and handsets
- the impact of new technologies
- the impact of perceived health risks

Management recognise the above risks and issues and in accordance with FRS11 ("Impairment of fixed assets and goodwill") an impairment review was performed as at 31 December 2001. The net book amounts of the assets of the company representing investments in the partner companies in the Partnership and inter company loans to finance the purchase of the 3G licence have therefore been compared with the estimated ongoing value in use in the partner companies and the Partnership.

The value in use has been derived from conventional discounted cash flow projections. The valuation comprises the discounted cash flows of the Partnership business for an initial 10 year period and a terminal value in perpetuity. An initial 10 year forecast period is used as management consider that there will be a period of significant volatility in the business and that at the end of this period there will emerge a reliable and sustainable cash flow on which to base the terminal value. In addition the amount of technology and assets required for such growth means that 10 year projections provide an appropriate basis on which to base long term values. A substantial majority of the valuation arises in the terminal value.

The projections use a long term growth rate of 3.7% - which is higher than the post war UK average of 2.5% because historically the industry and the Partnership had experienced growth rates in excess of the UK average and the directors consider that the long term growth of the industry and the Partnership within the industry will continue to be higher than average UK growth rates. A discount rate of 8.77% was used within a Capital Asset Pricing Model, using a risk free rate of 5% calculated from long dated government bonds and an equity risk premium taking into account long term trends of 4.9% as an appropriate measure of risk.

There are a number of key assumptions which affect the cash flows of the business. These include assumptions about the development of the UK market and the market size, the Partnership's share of the market, customer revenues, operating margins and capital expenditure.

Notes to the accounts (continued)

3 Permanent diminution in the value of fixed asset investments (continued)

It is projected that the market will grow by approximately 22% from current levels and that the Partnership will increase its market share to 24.5%. It is assumed that revenues from its customers will increase significantly from current levels and that margins will also improve significantly over time. Growth in total Average Revenue Per User (ARPU) is driven by increasing deployment of non-voice services and the mix shift in base toward higher ARPU contract customers. Capital expenditure is forecast to decrease as a result of efficiencies in the design and build of future networks and includes savings from network sharing agreements and the implementation of new business systems.

The Partnership has assumed that the current 3G licence will be renewed on expiry at a rate equivalent to the average per head of population payment in the recent European licence auctions, excluding the UK and German markets.

The impairment review did not support the net amount invested in the partner companies and the Partnership and accordingly a write down of £1,484 million was recognised against the investment in the partner companies.

The directors acknowledge that whilst they are satisfied that the assumptions used in the evaluation are the most appropriate in the current circumstances, they recognise the significant nature of the inherent uncertainties described above. Moreover the directors acknowledge that it is possible that in developing the business, building the network infrastructure and developing market share one or more of the assumptions used in the valuation model may require revision as relevant internal and external factors in the company's environment change. These assumptions will be considered during the annual impairment reviews. It is possible that any changes will have the effect of reducing the value of the underlying assets. In addition unforeseen circumstances may emerge which have not been addressed by an assumption. However based on the directors current understanding of the UK environment it is the directors view that no further adjustments to the net book amounts of the assets are required at this time.

In accordance with FRS 11 annual impairment reviews will continue to be completed in future periods.

4 Directors' emoluments

None of the directors received or waived any remuneration in respect of their services as directors of the company.

There were no contracts of significance subsisting during or at the end of the financial year in which a director was beneficially interested.

5 Interest receivable and similar income

	Year ended 31 December 2001 £'000	Period ended 31 December 2000 £'000
Interest receivable on loan to group undertaking	247,919	176,357

Interest receivable represents interest charged on a loan of £3,902,252,892 made to the Partnership at LIBOR plus 0.25% (see Note 9). No interest is charged on amounts payable to group undertakings.

Notes to the accounts (continued)

6 Taxation on (loss)/profit on ordinary activities

	31 December 2001 £'000	31 December 2000 £'000
Based on the loss for the year/period comprises		
Corporation tax at 30% (2000 – 30%)	74,376	52,907
Group relief receivable	(74,376)	(52,907)
Tax charge for the year/period	-	-

The corporation tax charge for the year has been reduced by £74,376,000 due to the losses surrendered by a fellow subsidiary undertaking. No payment for this surrender is to be made by this company.

7 Fixed asset investments

	31 December 2001 £'000	31 December 2000 £'000
Investment in subsidiaries	8,977,960	10,447,087

The subsidiary undertakings as at 31 December 2001 are as follows:

Name	Activity	Country of incorporation / operation	Percentage Shareholding	
			Direct	Indirect
T-Mobile No. 1 Limited (formerly Deutsche Telekom Number 1 Limited)	Holding Company	England	100	
T-Mobile No. 2 Limited (formerly Deutsche Telekom No. 2 Limited)	Dormant	England	100	
T-Mobile No. 4 Limited (formerly Deutsche Telekom No. 4 Limited)	Dormant	England	100	
T-Mobile No. 5 Limited (formerly Deutsche Telekom No. 5 Limited)	Holding Company	England	100	
T-Mobile (UK) Limited (formerly One 2 One Personal Communications Limited)	Holding Company	England	100	
T-Mobile Limited (formerly One 2 One Limited)	Dormant	England		100
T-Mobile Retail Limited (formerly One 2 One Retail Limited)	Mobile Phone Retailer	England		100
T-Mobile (UK) Pension Trustee Limited (formerly One 2 One Pension Trustee Limited)	Trustee Company	England		100

Notes to the accounts (continued)

7 Fixed asset investments (continued)

	Total £'000
Investment in subsidiary companies is comprised as follows:	
Cost	
At 1 January 2001 and 31 December 2001	10,447,087
Provision for impairment	
Charge for the year	1,483,709
At 31 December 2001	1,483,709
Net carrying amount of investment	
At 1 January 2001	10,447,087
At 31 December 2001	8,963,378

The company has made investments in the telecommunications market through the acquisition of the partner companies in the Partnership and by funding the acquisition of the third generation mobile service licence. Management recognise the fact that there are a number of inherent features in this market and, in accordance with FRS11, conducted an impairment review of its investments as at 31 December 2001 in which the carrying value of the investments were compared to their recoverable amount and to the level of expected future cashflows in the partner companies and the Partnership. A write down of £1,484 million was recognised against the fixed asset investment in the partner companies. Details of the impairment review performed are described further in Note 3.

8 Debtors due within one year

	31 December 2001 £'000	31 December 2000 £'000
Prepayments and accrued income	424,275	176,357

The amount represents interest accrued in respect of the loan to the Partnership for the purchase of the UMTS licence, as described in Note 9 below.

Notes to the accounts (continued)

9 Debtors due after more than one year

	31 December 2001 £'000	31 December 2000 £'000
Amounts receivable from group undertakings	4,151,366	4,151,366

Amounts owing from group undertakings comprise an interest free subordinated loan of £249,112,672 to the Partnership and a further loan of £3,902,252,892 to the Partnership which carries interest at LIBOR plus 0.25%.

10 Creditors: Amounts falling due within one year

	31 December 2001 £'000	31 December 2000 £'000
Trade creditors	-	19
Amounts payable to group undertakings	3,751,471	5,750,697
	<u>3,751,471</u>	<u>5,750,716</u>

Amounts payable to group undertakings include £3,331,500,000 (31 December 2000 - £3,331,500,000) owed to T-Mobile No. 4 Limited, £419,297,361 (31 December 2000 - £419,297,361) owed to T-Mobile No. 2 Limited, £673,241 (31 December 2000 - £646,952) owed to the Partnership and £nil (31 December 2000 - £1,999,252,892) owed to T-Mobile International A.G.

11 Called-up share capital

	31 December 2001 £'000	31 December 2000 £'000
<i>Authorised</i>		
10,000,000,000 ordinary £1 shares	10,000,000	10,000,000
<i>Allotted, called-up and fully-paid</i>		
At 1 January (697,540,268 ordinary £1 shares)	697,540	694,540
Allotted during the year/period	9,000	3,000
At 31 December (706,540,268 ordinary £1 shares)	<u>706,540</u>	<u>697,540</u>

On 29 June 2001 the company issued 9 million ordinary £1 shares to T-Mobile International A.G. for a total consideration of £1,999,252,892 at a subscription price of £222.14 per share. A loan from T-Mobile International A.G. of £1,999,252,892 was repaid on 29 June 2001 with the proceeds from the share issue.

Notes to the accounts (continued)

12 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 January 2001	8,150,863	175,691
Premium on shares issued during the year	1,990,252	-
Loss for the year	-	(1,235,798)
At 31 December 2001	<u>10,141,115</u>	<u>(1,060,107)</u>

13 Reconciliation of movements in shareholders' funds

	31 December 2001 £'000	31 December 2000 £'000
Opening shareholders' funds	9,024,094	-
(Loss)/profit for the year/period	(1,235,798)	175,691
Share capital issued during the year/period	1,999,252	8,848,403
Closing shareholders' funds	<u>9,787,548</u>	<u>9,024,094</u>

14 Capital commitments

The company had no capital commitments as at 31 December 2001.

15 Guarantees, financial commitments and contingent liabilities

The company has no guarantees, financial commitments and contingent liabilities.

16 Cash flow statement

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking of Deutsche Telekom AG. A cash flow statement is included in the financial statements of Deutsche Telekom AG.

17 Related party transactions

Under Financial Reporting Standard 8, the company is exempt from the requirement to disclose transactions with entities that are part of the Deutsche Telekom AG Group, or investees of the group qualifying as related parties, as all of the company's voting rights are controlled within that group. The only other related party with which other material transactions took place is the Partnership.

Notes to the accounts (continued)

18 Ultimate parent companies

The immediate parent undertaking is T-Mobile International AG (incorporated in Germany). The ultimate parent undertaking and controlling party is Deutsche Telekom AG, (incorporated in Germany). The consolidated accounts of Deutsche Telekom AG are available to the public and may be obtained from:

Press and Corporate Communication Department
Postfach 20 00
D-53105 Bonn
Germany