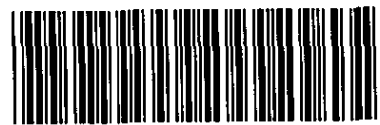


Company Number: 03014367

ORANGE HOME UK LIMITED
(formerly ORANGE HOME UK PLC)

ANNUAL REPORT
FOR THE YEAR ENDED
31 DECEMBER 2008

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ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

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ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

DIRECTORS' REPORT

The directors present their report and the audited financial statements of Orange Home UK Limited (formerly Orange Home UK Plc) ("the company") for the year ended 31 December 2008.

Principal activities and review of the business

The company is an internet and voice service provider in the UK and is the proprietor of one of the most popular internet portals in the country delivering an integrated offering of UK-focused content, e-commerce, tools and services.

The company's financial and other performance indicators during the year were as follows:

	2008 £'000	Restated 2007 £'000	Change %
Turnover	169,830	101,683	67%
Operating loss	(186,585)	(111,369)	68%
Loss after tax	(61,834)	(117,382)	-47%
Shareholders' funds / (deficit)	59,388	(135,072)	144%
Current assets as % current liabilities	157%	43%	267%
Average number of employees	-	164	-100%

The strategy of the company is focused on the rollout and optimisation of the broadband access network, and the development of the capability to deliver a range of communication products as a result. The ongoing rollout of the network has required significant up-front investment. Following this investment the company has not achieved the customer numbers in the relevant network locations, required to enable an operating profit in the year.

On 18 June 2008 the company purchased from OHCS II Servicos de Internet, Unipessoal, LDA, a fellow group company, the Orange broadband customer base that is on the BT owned IPStream network, which contributed to the growth in turnover. The consideration was £77,033,842.

Staff numbers had reduced significantly by the end of 2007 due to the migration of Orange Home employees onto Orange Personal Communications Services Limited employment contracts. This migration was completed in 2008.

During 2008 Orange Personal Communication Services Limited provided business support and some finance functions for the company (note 5).

Principal risks and uncertainties

We have a comprehensive risk management process in place, which is designed to identify, manage and mitigate business risk. Regular reporting of these risks and the monitoring of actions and controls is conducted by the Board.

External

The Orange Home business is directly impacted by the external environment and in particular the regulatory environment and competitive marketplace the company operates in.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

DIRECTORS' REPORT (continued)

Level of competitive activity

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

Regulatory factors

The company's operations are subject to stringent regulatory requirements. The company monitors regulatory developments and has a strong compliance regime. Regular reviews and audits are carried out to ensure compliance.

Results for the year, dividends and transfer to reserves

The loss for year ended 31 December 2008 was £61,834,000 (2007: loss £117,382,000) and has been transferred to reserves. Detailed results for the year are shown in the profit and loss account on page 8.

No dividends were paid during the year under review (2007: £nil). The directors do not recommend the payment of a final dividend for the year under review (2007: £nil).

Directors

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

Date appointed

Orange Limited
Michael Newnham
Gavin Moore

17 October 2008 (alternate director)

There are no directors interests.

The ultimate parent is France Telecom S.A, a body corporate incorporated outside of Great Britain. As such, the directors are not required to disclose their interest in shares in, or debentures of, that or any other body corporate incorporated outside of Great Britain.

Research and development

There were no research and development activities undertaken by the company during the year (2007: £nil).

Future prospects

The company expects to continue to develop its business operations during 2009 and to grow its revenues further.

Political and charitable contributions

The company has not made any political or charitable donations during the year (2007: £nil).

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

DIRECTORS' REPORT (continued)

Creditor payment policy

All the invoices are processed and paid by Orange Personal Communications Services Limited on behalf of the company. The company does not have its own purchase ledger.

Orange Personal Communications Services Limited's policy concerning the payment of its trade creditors is to reflect local practice in the United Kingdom. Standard payment terms are 60 days but may be varied by negotiation with individual suppliers.

For all trade creditors, the policy is to:

- agree the terms of payment at the start of business with that supplier;
- ensure that suppliers are aware of the terms of payment;
- pay in accordance with its contractual and other legal obligations whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The company had trade creditors at 31 December 2008 of £nil (31 December 2007: £nil).

Events after the balance sheet date

On 28 April 2009 the company changed its name and re-registered as Orange Home UK Limited. At the same time its registered company address was changed to St James Court, Great Park Road, Almondsbury Park, Bradley Stoke, Bristol BS32 4QJ.

On 28 April 2009 the company purchased from OHCS II Servicos de Internet, Unipessoal, LDA, a fellow group company, the wholesale calls and wholesale line rental customer base. The consideration was £730,286.

On 15 July 2009 the company issued £45,100,000 £1 ordinary shares at par to Wanadoo Limited.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

DIRECTORS' REPORT (continued)

Re-appointment of auditor

The auditor, Ernst & Young LLP, has indicated its willingness to continue in office.

By order of the board



20/7/09.

Charles Mowat
Company Secretary

St James Court
Great Park Road
Almondsbury Park
Bradley Stoke
Bristol
BS32 4QJ

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that 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.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ORANGE HOME UK LIMITED (FORMERLY ORANGE HOME UK PLC)

We have audited the company's financial statements for the year ended 31 December 2008, which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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 International Standards on Auditing (UK and Ireland).

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 Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ORANGE HOME UK LIMITED (FORMERLY ORANGE HOME UK PLC) (cont)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

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

22 July 2009

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	<u>2008</u> <u>£000</u>	<u>Restated</u> <u>2007</u> <u>£000</u>
TURNOVER	3	169,830	101,683
Cost of sales		<u>(108,743)</u>	<u>(53,638)</u>
GROSS PROFIT		61,087	48,045
Distribution expenses		(824)	(597)
Administration expenses		(3,924)	(2,123)
Management recharge	5	(242,924)	(156,597)
Impairment on fixed asset investment		<u>-</u>	<u>(97)</u>
OPERATING LOSS	5	(186,585)	(111,369)
Exceptional item	6	72,957	(39,951)
Interest receivable & similar charges	7	301	1,244
Interest payable & similar charges	8	<u>(3,909)</u>	<u>(690)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(117,236)	(150,766)
Tax on loss on ordinary activities	11	<u>55,402</u>	<u>33,384</u>
LOSS FOR THE FINANCIAL YEAR	18	<u>(61,834)</u>	<u>(117,382)</u>

All activities relate to continuing operations.

There are no recognised gains or losses for the current and previous financial periods other than the loss stated in the profit and loss account. Accordingly, no separate statement of total recognised gains and losses has been presented.

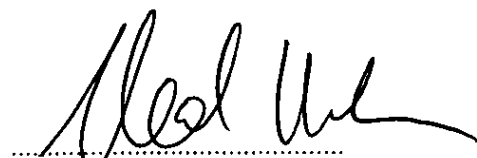
There is no difference between the loss on ordinary activities before taxation and the loss for the financial year stated above and their historical cost equivalents.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	<u>2008</u> £000	<u>2007</u> £000
FIXED ASSETS			
Investments	12	-	-
CURRENT ASSETS			
Debtors	13	162,700	44,806
Cash at bank and in hand		595	383
		<u>163,295</u>	<u>45,189</u>
CREDITORS: Amounts falling due within one year	14	<u>(103,907)</u>	<u>(105,392)</u>
NET CURRENT ASSETS / (LIABILITIES)		<u>59,388</u>	<u>(60,203)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		59,388	(60,203)
CREDITORS: Amounts falling due after one year	15	-	(72,957)
PROVISIONS FOR LIABILITIES AND CHARGES	16	-	(1,912)
NET ASSETS / (LIABILITIES)		<u>59,388</u>	<u>(135,072)</u>
CAPITAL AND RESERVES (inc non-equity interests)			
Called up share capital	17	256,252	252
Share premium account	18	158,632	158,632
Equity settled stock option plan liability	24	1,335	1,041
Profit and Loss Account	18	(356,831)	(294,997)
TOTAL EQUITY SHAREHOLDERS FUNDS	19	<u>59,388</u>	<u>(135,072)</u>
Attributable to equity shareholders		59,388	(135,222)
Attributable to non-equity shareholders		-	150
	19	<u>59,388</u>	<u>(135,072)</u>

The financial statements on pages 8 to 22 were approved by the board of directors on 20/7/09 and are signed on its behalf by:



Neal Milsom

For and on behalf of Orange Limited, Director

Date: 20/7/09

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

The principal accounting policies have been applied consistently throughout the period under review and preceding period.

1.1 Basis of Preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

In accordance with Financial Reporting Standard 18 ('FRS'): "Accounting Policies", the directors have reviewed the accounting policies set out below and are of the opinion that they are appropriate for the purpose of giving a true and fair view of the results of the company for the year ended 31 December 2008.

The comparative figures for the year ended 31 December 2007 were restated to properly record the provision of intercompany loan. The effect of this was to decrease the operating loss from £151,320,000 to £111,369,000, and classify the cost as an exceptional item below operating loss but above loss on ordinary activities before taxation. There was no overall impact on the financial statements as a result of this prior year adjustment.

1.2 Revenue recognition

Turnover comprises revenue from ISP subscriptions, connectivity, online advertising and e-commerce, stated net of sales tax and agency commissions.

ISP subscription revenues are recognised rateably over the period to which the revenue relates. Discounts given to customers during a contract period with the company are spread evenly over the duration of the contract.

Connectivity revenues represent Orange Home's share of the net termination payment made by a call-originating public telecommunications operator to the carrier terminating the call. The revenue is received net of any costs from the carrier terminating the call and there are no other related costs. Revenue from connectivity is recognised when the service is provided.

Advertising revenues are recognised rateably over the period in which the advertisement is displayed provided that no significant obligations remain at the end of the period and collection of the resulting debtor is probable. Orange Home occasionally takes part in barter advertising deals whereby partners' banner advertisements are shown in unsold space on Orange Home's sites, in exchange for Orange Home banners appearing in unsold space on their sites. Both the revenue and cost elements of these transactions are deemed to be £Nil.

Sponsorship revenue is recognised rateably over the contract period or the period to which the payment relates. All other e-commerce revenue is recognised as earned.

1.3 Research and development

With the exception of the cost of building websites for new businesses, part of which are capitalised, the development of new products and enhancements to existing products are charged to profit and loss account as they are incurred.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES (continued)

1.4 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and, where appropriate, provision for impairment or estimated loss on disposal. Depreciation is provided to write off the costs of the assets by equal instalments over their estimated useful lives. The rates used are:

Network Equipment	- between 10% and 33.3% per annum
Plant & Machinery	- between 10% and 33.3% per annum

Depreciation is not charged until assets are complete and ready to use. The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

1.5 Investments

Fixed asset investments are stated at cost less provision for impairment.

1.6 Impairments

In accordance with FRS 11, the company has reviewed the carrying value of all of its investment for indicators of impairment in their value. Where evidence of impairment is considered to have been significant a provision has been made against the carrying value of these investments so to reflect the net realisable value of investments. The net realisable value is calculated on the basis of the continuing cash flows that are expected to be generated from these investments less any debt. Discount rates are based on the circumstances applicable in each case.

1.7 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or receive more, tax, with the exception of deferred tax assets, which are only recognised to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.8 Operating leases

Rentals payable under property leases are charged to the profit and loss account in equal instalments up to each market rent review date, throughout the lease term. Lease incentives are recognised over the full length of the lease term.

1.9 Foreign exchange

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at each balance sheet date at the month-end exchange rate and the resulting transaction differences are taken to profit and loss account.

1.10 Post retirement benefits

The parent company operates a defined contribution scheme for its eligible employees. The company's contributions are charged to the profit and loss account as they become payable.

1.11 Cash flow statement

The company has taken advantage of the exemption in FRS 1. A cash flow statement has not been prepared as the company was, throughout the year, a wholly owned subsidiary of France Telecom S.A., registered in France, which prepares a group cash flow statement.

1.12 Stock

Stock is stated at the lower of cost and net realisable value. Stock consists of modems bought for resale.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES (continued)

1.13 Provision for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

1.14 Consolidated accounts

Consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of a company registered in England and Wales. Accordingly the company's financial statements present information about it as an individual undertaking and not as a group.

1.15 Share based payment

Equity settled transactions

In accordance with FRS20 "Share based payment", the cost of the employee share offer corresponds to the fair value of the rights to shares at the grant date. The value of stock options is determined by reference to the exercise price, the life of the options, the current price of the underlying shares, the expected share price volatility, expected dividends and the risk-free interest rate over the life of the options. The amount is recognised in administrative expenses on a straight line basis over the period between the grant date and the exercise date – corresponding to the vesting period and in equity.

2. GOING CONCERN

The financial statements have been prepared on a going concern basis considering the loan waiver provided by a Group company, the current Group credit facility and the fact that the immediate parent entity provided the company with £45,100,000 in cash by issuing 45,100,000 £1 ordinary shares on 15 July 2009 and therefore has confirmed its support based on the forecasts for the next 12 months from the date of approval of these financial statements.

3. SEGMENTAL INFORMATION

Turnover represents amounts derived from the provision of services which fall within the company's ordinary activities after deduction of sales taxes, agency commission and partner revenue share. The company is engaged in one line of business as a UK Internet portal. All turnover is derived from activities in the UK.

4. ACQUISITION

On 18 June 2008 the company purchased from OHCS II Servicos de Internet, Unipessoal, LDA, a fellow group company, the Orange broadband customer base that is on the BT owned IPStream network. The consideration was £77,033,000. During the remainder of the year, £56,885,000 of revenue and £66,686,000 of costs were recognised in respect of the acquired business. This resulted in an operating loss of £9,801,000 which is attributable to the purchase.

5. OPERATING LOSS

	2008 £000	2007 £000
Operating loss is stated after charging:		
Rentals paid under operating leases		
- Other	587	645
- Broadband network	50	1,478
Auditors remuneration – audit fees	60	148
Unrealised exchange loss	5,688	178

The profit and loss account includes unrealised exchange losses of £5,688,000 (2007: £178,000) arising from unsettled short-term monetary items. The directors consider this disclosure necessary in order for the financial statements to give a true and fair view.

In 2008 management recharges of £242,924,000 (2007: £156,597,000) relate to charges from Orange Personal Communications Services Limited for providing business services to the company.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

6. EXCEPTIONAL ITEMS

Wanadoo Limited held a meeting dated 30 October 2008, at which it resolved to issue a loan waiver for the company's debt of £72,956,713. The company also granted a loan waiver to Freeserve Investments Limited for £39,951,000 for which a provision was booked in the 2007 accounts.

7. INTEREST RECEIVABLE & SIMILAR CHARGES

	2008 £000	2007 £000
Group loan interest receivable	301	1,244
	<u>301</u>	<u>1,244</u>

8. INTEREST PAYABLE & SIMILAR CHARGES

	2008 £000	2007 £000
Group loan interest payable	3,909	690
	<u>3,909</u>	<u>690</u>

9. EMPLOYEES

All of the company's staff have gradually migrated onto Orange Personal Communications Services Limited's payroll. All employment contracts are now hosted by Orange Personal Communications Services Limited. Orange Personal Communications Services Limited operates the payroll on behalf of the company and other holding companies in the UK. The company directs the activities and bears the costs of the relevant UK Group employees whose main activities relate to the objective and operation of the company.

The staff costs and average number of employees under the direction and management of the company during the year was as follows:

	2008 £000	2007 £000
Staff costs for the period were		
Wages and salaries	-	8,310
Social security costs	-	1,064
Other pension costs	-	457
	<u>-</u>	<u>9,831</u>
	2008 Number	2007 Number
Average number of persons employed		
- Sales and distribution	-	105
- administration	-	59
	<u>-</u>	<u>164</u>

The staff numbers had reduced significantly by the end of 2007 due to the migration of Orange Home employees onto Orange Personal Communications Services Limited employment contracts. The migration was completed in 2008. All employee costs are disclosed in the accounts of Orange Personal Communication Services Limited.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

10. DIRECTORS REMUNERATION

The emoluments of the directors of the company were as follows:

	2008 £000	2007 £000
Aggregate emoluments (including benefits)	225	591
Pension contribution to defined contribution schemes	14	3
	<u>239</u>	<u>594</u>
Highest paid director:		
	2008 £000	2007 £000
Aggregate emoluments (including benefits)	225	507
Pension contributions to defined contribution schemes	14	-
	<u>239</u>	<u>507</u>

Gavin Moore was appointed as an alternate director to Michael Newnham in October 2008 and did not receive any emoluments for his service as a director of the company.

From 1 July 2008 Michael Newnham no longer worked solely for the company therefore the amounts above relate to the period from January 2008 to June 2008.

During the year one director (2007: two) participated in the company's defined contribution pension scheme.

During the year no director (2007: none) received shares through long term incentive schemes and one director (2007: one) exercised his share options.

11. CORPORATION TAX

(a) Tax on loss on ordinary activities

	2008 £000	2007 £000
Current tax		
UK corporation tax on loss of the year	(54,299)	(34,673)
Adjustment in respect of prior periods	(3,843)	-
Total current tax credit (note 11(b))	<u>(58,142)</u>	<u>(34,673)</u>
Deferred tax		
Origination and reversal of timing differences	2,740	998
Effect of decreased tax rate on opening deferred tax asset	-	291
Total deferred tax charge (note 11(d))	<u>2,740</u>	<u>1,289</u>
Tax credit on loss on ordinary activities	<u>(55,402)</u>	<u>(33,384)</u>

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

11. CORPORATION TAX (continued)

(b) Factors affecting the current tax charge

The current tax assessed for the year is different from the UK standard rate of corporation tax of 28.5% (2007: 30%). The differences are as follows:

	2008 £000	2007 £000
Loss on ordinary activities before taxation	(117,236)	(150,766)
Profit on ordinary activities multiplied by the UK standard rate of corporation tax of 28.5% (2007: 30%)	(33,412)	(45,230)
Factors affecting the credit:		
Non-taxable expenses	-	(327)
Accelerated capital allowances	(95)	(1,101)
Non-taxable connected party debt forgiveness	(20,792)	-
Non-deductible connected party loan provision	-	11,985
Adjustments in respect of prior periods	(3,843)	-
Corporation tax charge for the year (Note 11(a))	(58,142)	(34,673)

(c) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for the year ended 31 December 2008 have been taxed at an average rate of 28.5%.

(d) Deferred taxation

The deferred tax asset recognised in the accounts is as follows:

	2008 £000	2007 £000
Decelerated capital allowances	342	3,082
Total recognised deferred tax asset (note 13)	342	3,082

The movements in deferred tax during the year were as follows:

	2008 £000
Deferred tax asset recognised at 1 January 2008	3,082
Amount charged to the profit and loss account	(2,740)
Deferred tax asset recognised at 31 December 2008	342

The company also has an unrecognised deferred tax asset of £5,618,000 (2007: £6,851,000) consisting of trading losses of £4,971,000 (2007: £4,971,000) and capital losses of £647,000 (2007: £1,880,000). These losses have not been recognised as the recognition criteria set out in FRS 19 have not been met. Capital losses have reduced following an agreement with HMRC relating to prior years.

ORANGE HOME UK LIMITED (formerly ORANGE HOME UK PLC)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

12. INVESTMENTS

	Subsidiaries £'000	Other shares £'000	Total £'000
Cost			
At 01 January and 31 December 2008	1,033	466	1,499
Provision			
At 01 January and 31 December 2008	(1,033)	(466)	(1,499)
Net book value			
At 31 December 2007 and 31 December 2008	-	-	-

The company's direct subsidiary undertakings at 31 December 2008 are listed below. Percentages shown relate to the proportion of ordinary share capital held by the company:

Name of company	Country of incorporation	Principal activity	Percentage shareholding
Freese Investments Limited	England	Dormant	100%

13. DEBTORS

	2008 £000	2007 £000
Due within one year:		
Trade debtors	7,857	14,563
Corporation tax	34,923	18,020
Deferred tax (note 11(d))	342	3,082
Prepayments and accrued income	1,306	256
Amounts owed by group undertakings	118,272	8,885
	<u>162,700</u>	<u>44,806</u>

14. CREDITORS – amounts falling due within one year

	2008 £000	2007 £000
Other creditors	5,717	4,072
Accruals and deferred income	46,972	14,830
Amounts owed to group undertakings	51,218	86,490
	<u>103,907</u>	<u>105,392</u>

15. CREDITORS – amounts falling due after one year

	2008 £'000	2007 £'000
Amounts owed to group undertakings	-	72,957
	<u>-</u>	<u>72,957</u>

16. PROVISIONS FOR LIABILITIES

	Provision for disconnection fee £'000	Total £'000
At 1 January 2008	1,912	1,912
Transfer to Orange Personal Communications Services Limited	(1,912)	(1,912)
At 31 December 2008	<u>-</u>	<u>-</u>

Provision for disconnection fees

A provision was recognised for expected disconnection fees. The provision is calculated based on standard charges and estimated customer churn rates. The provision was transferred to Orange Personal Communication Services Limited during the year.

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17. Share capital

	2008 £'000	2007 £'000
Authorised:		
400,000,000 Ordinary shares of £1.00 each	400,000	-
1,500,000,000 Ordinary shares of 0.01 pence each	-	150
150,000 Preference shares of £1.00 each	-	150
	<u>400,000</u>	<u>300</u>
Called up, allotted and fully paid:		
256,251,620 Ordinary shares of £1.00 each	256,252	-
1,016,191,954 Ordinary shares of 0.01 pence each	-	102
150,000 Preference shares of £1.00 each	-	150
	<u>256,252</u>	<u>252</u>

On 30 October 2008 all the company's ordinary shares of £0.0001 nominal value were consolidated into ordinary shares of £1 each. 150,000 £1 preference shares were converted into 150,000 £1 ordinary shares and the company issued £256,000,000, new £1 ordinary shares at par to Wanadoo Limited.

18. MOVEMENT IN RESERVES

	Equity settled stock option plan liability £'000	Share premium account £'000	Profit and loss account £'000
At 01 January 2008	1,041	158,632	(294,997)
Movement in the year	294	-	(61,834)
At 31 December 2008	<u>1,335</u>	<u>158,632</u>	<u>(356,831)</u>

19. RECONCILIATION OF SHAREHOLDERS FUNDS

	2008 £'000	2007 £'000
Shareholders funds as at 1 January	(135,072)	(17,901)
Loss for the financial year	(61,834)	(117,382)
Movement on the share based payment plan	294	211
Increase in share capital	256,000	-
Shareholders funds as at 31 December	<u>59,388</u>	<u>(135,072)</u>

20. CONTINGENT LIABILITIES / ASSETS

The company had £333,000 (2007: £358,000) of e-commerce deals and £1,020,000 (2007: £1,069,000) of advertising deals commitments which were not provided at the year end.

The company had no contingent liabilities at 31 December 2008 (31 December 2007: £nil).

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21. OPERATING LEASE COMMITMENTS

At 31 December 2008 the company was committed to the following annual payments in respect of operating leases:

	31 December 2008 £'000	31 December 2007 £'000
Leases which expire		
Within one year	11,118	16,652
Within two to five years	13,010	16,452
Over five years	-	-
	<u>24,128</u>	<u>33,104</u>

- None of the above relate to land and buildings

22. POST RETIREMENT BENEFITS

The company's permanent employees were eligible to join a defined contribution scheme. The cost of contributions made by the company to this scheme was £nil in the year (2007: £457,000). There are no outstanding contributions to be made to the scheme for the period.

23. RELATED PARTY TRANSACTIONS

The company is a member of the group headed by France Telecom S.A., a company incorporated in France. Accordingly, the company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" not to disclose transactions with other members of the France Telecom S.A. Group.

24. SHARE-BASED PAYMENTS

24.1 Wanadoo Share options for Orange Home UK Limited's employees

Following the purchase of minority shares in Wanadoo, France Telecom exchanged Wanadoo share options for France Telecom stock options in September 2004, at a ratio of 7 France Telecom S.A. shares for 18 Wanadoo S.A. shares. There was a further adjustment in September 2005 following a France Telecom increase in share capital.

Under the UK element of the share option plan all options have 10-year terms and are equity-settled, although they were temporarily settled by cash from 9, March 2004 to 1, September 2004.

No options have been granted since November 2003 and all options under the share options plans have now vested. Options were granted for UK employees between 2001 and 2003.

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24. SHARE-BASED PAYMENTS (Continued)

24.2 Employee Share Offers

Following the sale of France Telecom shares by the French State in June 2007, employees were offered the opportunity to purchase France Telecom shares at a discounted price. In the UK shares were offered at a price of £14.69. The shares were delivered on 29 January 2008 and under the Classic Plan are subject to a 2-year holding period, during which the shares cannot be disposed of in any way. If the shares are held for 3 years from date of delivery, France Telecom will provide free bonus shares on an allocation of 1 Free France Telecom share for each 4 shares purchased and held for 3 years. The maximum number of bonus shares available is 30. In addition to the Classic Plan, France Telecom offered a Leverage Plan which enabled eligible employees to purchase 22 shares; this has a 4 year holding period and offers a guaranteed cash payout in April 2012.

Similar share offerings were made in 2004 and 2005, following the sale of shares by the French State. The purchase price for UK employees was £10.68 in 2004, bonus shares were awarded on 21 January 2008 for all employees who had not withdrawn their shares, the maximum award being 81 shares. Under the 2005 offer the purchase price for UK employees was £13.40, bonus shares awarded on 7 November 2008 for all employees who had not withdrawn their share, the maximum award being 63 shares.

24.3 Share Incentive Plan

In September 2005, the France Telecom Purchase Incentive Plan and trust was established under the Income Tax (Earnings & Pensions) Act 2003, and formally approved by HM Revenue & Customs. This allows eligible employees to acquire shares in France Telecom S.A.

Employees can acquire shares via:

- Partnership Shares - Eligible employees can purchase monthly "partnership shares", via the trust, up to £1,500 or to 10% of annual pre-tax salary each year.
- Matching Shares - One matching share is offered for every partnership share purchased by the employees, up to the value of £50 per month.
- Free Shares - Free shares can be offered up to £3,000 per employee in any tax year. This part of the plan has not been operated.
- Dividend Shares - The company can grant dividend shares up to £1,500 in any tax year.

From March 2007 the partnership share agreement has permitted purchase of dividend shares if the participant elects to reinvest the net dividend received. The first dividend shares were purchased in July 2007.

The matching shares are subject to forfeiture in certain circumstances for the first twelve months of acquisition, and are required to remain in the trust for three years.

24.4 France Telecom Stock Option Plan

In October 2005 and May 2007 France Telecom granted share options to selected senior employees on a world-wide basis. Employees of the company are participants of these grants. In October 2005 options were granted under both tax-approved and tax-unapproved plans in the UK. In May 2007 all options granted were tax-unapproved.

All share options are for a 10-year term. No options have yet vested. Options granted in October 2005 will vest and become exercisable in October 2008.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

24. SHARE-BASED PAYMENTS (Continued)

24.5 Orange share options for Orange Home UK Limited's employees

Following the purchase of minority shares in Orange S.A., France Telecom in 2004 offered to all option holders, including sharesave, the France Telecom Liquidity Agreement, which guaranteed that France Telecom would purchase Orange shares acquired on exercise, and exchange them for France Telecom shares, cash, or a combination of both (to be decided by France Telecom). Since September 2005 France Telecom has offered shares under the Liquidity agreement. The exchange ratio since September 2005 has been 1 Orange share for 0.446 France Telecom S.A. share.

All share option plans, except for sharesave, have a 10-year term. Sharesave plans were for 3 years, except one plan for options granted in 2001 which was for 5 years.

No Orange options (including sharesave) have been granted since May 2003 and all options under the share options plans have now vested. Options were granted for Orange Personal Communications Services Limited employees between 2001 and 2003.

All options were exercisable at 31 December 2007. In 2008, all options were transferred to Orange Personal Communications Services Limited and Orange Limited.

24.6 Movements in options granted under the France Telecom 2005 UK tax-approved plan

Details of the options granted under the France Telecom 2005 UK tax-approved plan to the company's employees can be summarised as follows for the 2008 and 2007 financial years:

	2008	2007
Options outstanding at the beginning of the period	9,400	9,400
Granted	-	-
Transferred to Orange Personal Communications Limited	(9,400)	-
Exercised	-	-
Lapsed	-	-
Options outstanding at the end of the period	0	9,400

24.7 Movements in options granted under the France Telecom 2005 UK tax-unapproved plan

Details of the options granted under the France Telecom 2005 tax-unapproved plans to the company's employees can be summarised as follows for the 2008 and 2007 financial years:

	2008	2007
Options outstanding at the beginning of the period	39,270	39,270
Granted	-	-
Transferred to Orange Personal Communications Limited	(39,270)	-
Exercised	-	-
Lapsed	-	-
Options outstanding at the end of the period	0	39,270

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24. SHARE-BASED PAYMENTS (Continued)

24.8 Movements in options granted under the France Telecom 2007 plan

Details of the options granted under the France Telecom 2007 plans to the company's employees can be summarised as follows for the 2008 and 2007 financial years:

	2008	2007
Options outstanding at the beginning of the period	27,500	-
Granted	-	27,500
Transferred to Orange Personal Communications Limited	(27,500)	-
Exercised	-	-
Lapsed	-	-
Options outstanding at the end of the period	0	27,500

24.9 Movements in options granted under Wanadoo plans

Details of the options granted under the Wanadoo plans to the company's employees can be summarised as follows for the 2008 and 2007 financial years:

	2008	2007
Options outstanding at the beginning of the period	8,532	19,688
Granted	-	-
Transferred to Orange Personal Communications Limited	(5,410)	-
Transferred to Orange Limited	(3,122)	-
Exercised	0	(11,156)
Lapsed	-	-
Options outstanding at the end of the period	0	8,532

24.10 Movements in options granted under the Orange International share option plan

Details of the options granted under the Orange International share option plan to the company's employees can be summarised as follows for the 2008 and 2007 financial years:

	2008	2007
Options outstanding at the beginning of the period	147,406	156,239
Granted	-	-
Transferred to Orange Personal Communications Limited	(147,406)	-
Exercised	0	(8,833)
Lapsed	-	-
Options outstanding at the end of the period	0	147,406

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

24. SHARE-BASED PAYMENTS (Continued)

24.11 Fair value of options granted and options re-measured during the period

France Telecom has measured the fair value of goods or services received from employees during the year based on the fair value of the equity instruments granted.

All the fair values of stock granted in 2007 were calculated using a binominal model which reflects the expected behaviour of grantees and also assumes that all the options will be exercised once the value of underlying shares reaches twice the exercise price. There were no options granted in 2008.

The 2007 assumptions used to measure fair value are as follows:

	France Telecom SA plans
Price of underlying at the grant date	20.40 euros
Exercise price	21.61 euros
Expected volatility	21.00%
Option term (contractual or expected)	9.89 years
Turnover rate (annual)	1.50%
Expected dividend payout rate	6.00%
Risk-free yield	4.50%

	2008 £'000	2007 £'000
	Expense for the year	Expense for the year
	Liability recognised	Liability recognised
Former Wanadoo stock option plans	294	211
	1,335	1,041

25. ULTIMATE PARENT UNDERTAKING

The company's immediate parent is Wanadoo Limited.

In the opinion of the directors, the company's ultimate parent and controlling party is France Telecom S.A., a company incorporated in France. Copies of the group financial statements of France Telecom SA may be obtained from the registered office of France Telecom SA at 6, Place d'Alleray, 75505, Paris, Cedex 15, France.

26. EVENTS AFTER BALANCE SHEET DATE

On 28 April 2009 the company changed its name and re-registered as Orange Home UK Limited. At the same time its registered company address was changed to St James Court, Great Park Road, Almondsbury, Bradley Stoke, Bristol BS32 4QJ.

On 28 April 2009 the company purchased from OHCS II Servicos de Internet, Unipessoal, LDA, a fellow group company, the wholesale calls and wholesale line rental customer base. The consideration was £730,286.

On 15 July 2009 the company issued £45,100,000 £1 ordinary shares at par to Wanadoo Limited.