# Notes to the consolidated financial statements continued

## 10. Impairment

### Impairment losses

The net impairment losses recognised in the consolidated income statement, as a separate line item within operating profit, in respect of goodwill and licences and spectrum fees are as follows:

| Cash generating unit | Reportable segment | 2011[1] £m | 2010 £m | 2009 £m |
|---|---|---|---|---|
| Italy | Italy | 1,050 | – | – |
| Spain | Spain | 2,950 | – | 3,400 |
| Greece | Other Europe[2] | 800 | – | – |
| Ireland | Other Europe[2] | 1,000 | – | – |
| Portugal | Other Europe[2] | 350 | – | – |
| Turkey | Other Europe | – | (200) | 2,250 |
| India | India | – | 2,300 | – |
| Ghana | Other Africa, Middle East and Asia Pacific | – | – | 250 |
| | | **6,150** | **2,100** | **5,900** |

Notes:
(1) Impairment charges for the year ended 31 March 2011 relate solely to goodwill.
(2) Total impairment losses in the Other Europe segment were £2,150 million in the year ended 31 March 2011.

### Year ended 31 March 2011

The impairment losses were based on value in use calculations. The pre-tax adjusted discount rates used in the most recent value in use calculation in the year ended 31 March 2011 are as follows:

| | Pre-tax adjusted discount rate |
|---|---|
| Italy | 11.9% |
| Spain | 11.5% |
| Greece | 14.0% |
| Ireland | 14.5% |
| Portugal | 14.0% |

During the year ended 31 March 2011 the goodwill in relation to the Group's investments in Italy, Spain, Greece, Ireland and Portugal was impaired by £1,050 million, £2,950 million, £800 million, £1,000 million and £350 million, respectively. The impairment charges were primarily driven by increased discount rates as a result of increases in government bond rates. In addition, business valuations were negatively impacted by lower cash flows within business plans, reflecting weaker country-level macro economic environments.

The pre-tax risk adjusted discount rates used in the previous value in use calculations at 31 March 2010 are disclosed below.

### Year ended 31 March 2010

The net impairment losses were based on value in use calculations. The pre-tax adjusted discount rates used in the value in use calculation in the year ended 31 March 2010 were as follows:

| | Pre-tax adjusted discount rate |
|---|---|
| India | 13.8% |
| Turkey | 17.6% |

During the year ended 31 March 2010 the goodwill in relation to the Group's operations in India was impaired by £2,300 million primarily due to intense price competition following the entry of a number of new operators into the market. The pre-tax risk adjusted discount rate used in the previous value in use calculation at 31 March 2009 was 12.3%.

In addition, impairment losses of £200 million, previously recognised in respect of intangible assets in relation to the Group's operations in Turkey, were reversed. The reversal was in relation to licences and spectrum and was as a result of favourable changes in the discount rate. The cash flow projections within the business plans used for impairment testing were substantially unchanged from those used at 31 March 2009. The pre-tax risk adjusted discount rate used in the previous value in use calculation at 31 March 2009 was 19.5%.

### Year ended 31 March 2009

The impairment losses were based on value in use calculations. The pre-tax adjusted discount rates used in the value in use calculation in the year ended 31 March 2009 were as follows:

| | Pre-tax adjusted discount rate |
|---|---|
| Spain | 10.3% |
| Turkey | 19.5% |
| Ghana | 26.9% |

During the year ended 31 March 2009 the goodwill in relation to the Group's operations in Spain was impaired by £3,400 million following a fall in long-term cash flow forecasts resulting from the economic downturn.

In addition, the goodwill and other intangible assets in relation to the Group's operations in Turkey was impaired by £2,250 million. At 30 September 2008 the goodwill was impaired by £1,700 million following adverse movements in the discount rate and adverse performance against previous plans. During the second half of the 2009 financial year, impairment losses of £300 million in relation to goodwill and £250 million in relation to licences and spectrum resulted from adverse changes in both the discount rate and a fall in the long-term GDP growth rate. The cash flow projections within the business plans used for impairment testing were substantially unchanged from those used at 30 September 2008.

The goodwill in relation to the Group's operations in Ghana was also impaired by £250 million following an increase in the discount rate.

## Goodwill

The carrying value of goodwill at 31 March was as follows:

| | 2011 £m | 2010 £m |
|---|---|---|
| Germany | 12,200 | 12,301 |
| Italy | 13,615 | 14,786 |
| Spain | 7,133 | 10,167 |
| | **32,948** | **37,254** |
| Other | 12,288 | 14,584 |
| | **45,236** | **51,838** |

# Notes to the consolidated financial statements continued

## 10. Impairment continued

### Key assumptions used in the value in use calculations

The key assumptions used in determining the value in use are:

| Assumption | How determined |
|---|---|
| Budgeted EBITDA | Budgeted EBITDA has been based on past experience adjusted for the following:<br><br>■ voice and messaging revenue is expected to benefit from increased usage from new customers, the introduction of new services and traffic moving from fixed networks to mobile networks, though these factors will be offset by increased competitor activity, which may result in price declines, and the trend of falling termination rates;<br>■ non-messaging data revenue is expected to continue to grow strongly as the penetration of 3G enabled devices and smartphones rises and new products and services are introduced; and<br>■ margins are expected to be impacted by negative factors such as an increase in the cost of acquiring and retaining customers in increasingly competitive markets and the expectation of further termination rate cuts by regulators and by positive factors such as the efficiencies expected from the implementation of Group initiatives. |
| Budgeted capital expenditure | The cash flow forecasts for capital expenditure are based on past experience and include the ongoing capital expenditure required to roll out networks in emerging markets, to provide enhanced voice and data products and services and to meet the population coverage requirements of certain of the Group's licences. Capital expenditure includes cash outflows for the purchase of property, plant and equipment and computer software. |
| Long-term growth rate | For businesses where the five year management plans are used for the Group's value in use calculations, a long-term growth rate into perpetuity has been determined as the lower of:<br><br>■ the nominal GDP rates for the country of operation; and<br>■ the long-term compound annual growth rate in EBITDA in years six to ten estimated by management.<br><br>For businesses where the plan data is extended for an additional five years for the Group's value in use calculations, a long-term growth rate into perpetuity has been determined as the lower of:<br><br>■ the nominal GDP rates for the country of operation; and<br>■ the compound annual growth rate in EBITDA in years nine to ten of the management plan. |
| Pre-tax risk adjusted discount rate | The discount rate applied to the cash flows of each of the Group's operations is generally based on the risk free rate for ten year bonds issued by the government in the respective market. Where government bond rates contain a material component of credit risk, high quality local corporate bond rates may be used.<br><br>These rates are adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific Group operating company. In making this adjustment, inputs required are the equity market risk premium (that is the required increased return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment, beta, applied to reflect the risk of the specific Group operating company relative to the market as a whole.<br><br>In determining the risk adjusted discount rate, management has applied an adjustment for the systematic risk to each of the Group's operations determined using an average of the betas of comparable listed mobile telecommunications companies and, where available and appropriate, across a specific territory. Management has used a forward-looking equity market risk premium that takes into consideration both studies by independent economists, the average equity market risk premium over the past ten years and the market risk premiums typically used by investment banks in evaluating acquisition proposals. |

### Sensitivity to changes in assumptions

Other than as disclosed below, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash generating unit to exceed its recoverable amount.

**31 March 2011**

The estimated recoverable amounts of the Group's operations in Italy, Spain, Greece, Ireland and Portugal equalled their respective carrying values and, consequently, any adverse change in key assumptions would, in isolation, cause a further impairment loss to be recognised. The estimated recoverable amounts of the Group's operations in Turkey, India and Ghana exceeded their carrying values by approximately £1,481 million, £977 million and £138 million, respectively.

The table below shows the key assumptions used in the value in use calculations.

| | Assumptions used in value in use calculation | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Italy % | Spain % | Greece % | Ireland % | Portugal % | Turkey % | India % | Ghana % |
| Pre-tax adjusted discount rate | 11.9 | 11.5 | 14.0 | 14.5 | 14.0 | 14.1 | 14.2 | 20.8 |
| Long-term growth rate | 0.8 | 1.6 | 2.0 | 2.0 | 1.5 | 6.1 | 6.3 | 6.3 |
| Budgeted EBITDA[1] | (1.0) | – | 1.2 | 2.4 | (1.2) | 16.8 | 16.5 | 41.4 |
| Budgeted capital expenditure[2] | 9.6 – 11.3 | 7.8 – 10.6 | 10.7 – 12.3 | 9.4 – 11.6 | 12.4 – 14.1 | 10.0 – 16.6 | 12.9 – 22.7 | 7.3 – 41.3 |

Notes:
(1) Budgeted EBITDA is expressed as the compound annual growth rates in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.
(2) Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.

The table below shows, for Turkey, India and Ghana, the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value.

| | Change required for the carrying value to equal the recoverable amount[1] | | |
|---|---|---|---|
| | Turkey pps | India pps | Ghana pps |
| Pre-tax adjusted discount rate | 5.6 | 1.1 | 6.9 |
| Long-term growth rate | (19.6) | (1.0) | n/a |
| Budgeted EBITDA[2] | (4.7) | (2.2) | (8.7) |
| Budgeted capital expenditure[3] | 7.0 | 2.5 | 8.9 |

Notes:
(1) The recoverable amount for Greece, which was impaired at 30 September 2010, equals the carrying value at 31 March 2011.
(2) Budgeted EBITDA is expressed as the compound annual growth rates in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.
(3) Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.

The changes in the following table to assumptions used in the impairment review would, in isolation, lead to an (increase)/decrease to the aggregate impairment loss recognised in the year ended 31 March 2011:

| | Italy | | Spain | | Greece | | Ireland | | Portugal | | All other | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Increase by 2 pps £bn | Decrease by 2 pps £bn | Increase by 2 pps £bn | Decrease by 2 pps £bn | Increase by 2 pps £bn | Decrease by 2 pps £bn | Increase by 2 pps £bn | Decrease by 2 pps £bn | Increase by 2 pps £bn | Decrease by 2 pps £bn | Increase by 2 pps £bn | Decrease by 2 pps £bn |
| Pre-tax adjusted discount rate | (2.4) | 1.0 | (1.5) | 2.2 | (0.2) | – | (0.2) | 0.3 | (0.3) | 0.4 | (0.7) | – |
| Long-term growth rate | 1.0 | (2.4) | 2.2 | (1.3) | – | (0.1) | 0.2 | (0.1) | 0.4 | (0.3) | – | (0.7) |
| Budgeted EBITDA[1] | 1.0 | (2.0) | 1.4 | (1.3) | – | (0.2) | 0.2 | (0.2) | 0.3 | (0.3) | – | – |
| Budgeted capital expenditure[2] | (1.1) | 1.0 | (1.0) | 1.0 | (0.1) | – | (0.1) | 0.3 | (0.2) | 0.2 | – | – |

Notes:
(1) Budgeted EBITDA is expressed as the compound annual growth rates in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.
(2) Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.

## 31 March 2010

The estimated recoverable amount of the Group's operations in India equalled its respective carrying value at 31 March 2010 and, consequently, any adverse change in key assumptions would, in isolation, cause a further impairment loss to be recognised. The estimated recoverable amount of the Group's operations in Turkey, Germany, Ghana, Greece, Ireland, Italy, Portugal, Romania, Spain and the UK exceeded their carrying value by approximately £130 million, £4,752 million, £18 million, £118 million, £259 million, £1,253 million, £1,182 million, £372 million, £821 million and £1,207 million respectively.

The table below shows the key assumptions used in the value in use calculations.

| | Assumptions used in value in use calculation | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | India % | Turkey % | Germany % | Ghana % | Greece % | Ireland % | Italy % | Portugal % | Romania % | Spain % | UK % |
| Pre-tax adjusted discount rate | 13.8 | 17.6 | 8.9 | 24.4 | 12.1 | 9.8 | 11.5 | 10.6 | 11.5 | 10.2 | 9.6 |
| Long-term growth rate | 6.3 | 7.7 | 1.0 | 5.2 | 1.0 | 1.0 | – | 0.5 | 2.1 | 1.5 | 1.5 |
| Budgeted EBITDA[1] | 17.5 | 34.4 | n/a | 20.2 | 3.9 | 0.8 | (0.1) | n/a | (2.5) | (0.7) | 4.9 |
| Budgeted capital expenditure[2] | 13.4 – 30.3 | 8.3 – 32.5 | n/a | 8.4 – 39.6 | 11.1 – 13.6 | 7.4 – 9.6 | 8.2 – 11.4 | n/a | 12.0 – 19.0 | 9.1 – 10.9 | 9.3 – 11.2 |

Notes:
(1) Budgeted EBITDA is expressed as the compound annual growth rates in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.
(2) Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.

# Notes to the consolidated financial statements continued

The table below shows, for Turkey, Germany, Ghana, Greece, Ireland, Italy, Portugal, Romania, Spain and the United Kingdom, the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value.

| | Change required for carrying value to equal the recoverable amount | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Turkey pps | Germany pps | Ghana pps | Greece pps | Ireland pps | Italy pps | Portugal pps | Romania pps | Spain pps | UK pps |
| Pre-tax adjusted discount rate | 0.5 | 1.8 | 1.0 | 0.7 | 1.0 | 0.8 | 4.5 | 2.0 | 0.6 | 1.3 |
| Long-term growth rate | (1.1) | (1.9) | (5.1) | (0.9) | (1.2) | (0.8) | (5.6) | (2.6) | (0.6) | (1.6) |
| Budgeted EBITDA[1] | (2.0) | n/a | (2.8) | (3.7) | (8.7) | (5.0) | n/a | (14.1) | (4.5) | (7.8) |
| Budgeted capital expenditure[2] | 1.5 | n/a | 2.5 | 2.8 | 7.0 | 5.1 | n/a | 13.8 | 3.5 | 5.8 |

Notes:
(1) Budgeted EBITDA is expressed as the compound annual growth rates in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.
(2) Budgeted capital expenditure is expressed as the range of capital expenditure as a percentage of revenue in the initial ten years for Turkey and Ghana and the initial five years for all other cash generating units of the plans used for impairment testing.

## 11. Property, plant and equipment

| | Land and buildings £m | Equipment, fixtures and fittings £m | Total £m |
|---|---|---|---|
| **Cost:** | | | |
| 1 April 2009 | 1,421 | 43,943 | 45,364 |
| Exchange movements | (6) | 8 | 2 |
| Arising on acquisition | 157 | 1,457 | 1,614 |
| Additions | 115 | 4,878 | 4,993 |
| Disposals | (27) | (1,109) | (1,136) |
| Change in consolidation status | (107) | (2,274) | (2,381) |
| Other | 24 | (58) | (34) |
| **31 March 2010** | **1,577** | **46,845** | **48,422** |
| Exchange movements | (16) | (678) | (694) |
| Additions | 122 | 4,604 | 4,726 |
| Disposals | (21) | (3,001) | (3,022) |
| Other | 69 | (732) | (663) |
| **31 March 2011** | **1,731** | **47,038** | **48,769** |
| **Accumulated depreciation and impairment:** | | | |
| 1 April 2009 | 583 | 25,531 | 26,114 |
| Exchange movements | (12) | (260) | (272) |
| Charge for the year | 102 | 4,354 | 4,456 |
| Disposals | (10) | (995) | (1,005) |
| Change in consolidation status | (28) | (1,461) | (1,489) |
| Other | (2) | (22) | (24) |
| **31 March 2010** | **633** | **27,147** | **27,780** |
| Exchange movements | (4) | (114) | (118) |
| Charge for the year | 99 | 4,273 | 4,372 |
| Disposals | (19) | (2,942) | (2,961) |
| Other | – | (485) | (485) |
| **31 March 2011** | **709** | **27,879** | **28,588** |
| **Net book value:** | | | |
| **31 March 2010** | **944** | **19,698** | **20,642** |
| **31 March 2011** | **1,022** | **19,159** | **20,181** |

The net book value of land and buildings and equipment, fixtures and fittings includes £131 million and £155 million respectively (2010: £91 million and £111 million) in relation to assets held under finance leases. Included in the net book value of land and buildings and equipment, fixtures and fittings are assets in the course of construction, which are not depreciated, with a cost of £38 million and £2,375 million respectively (2010: £45 million and £1,496 million). Property, plant and equipment with a net book value of £972 million (2010: £389 million) has been pledged as security against borrowings.