



London. 20 February 2014.

## EE Results for the Year Ended 31 December 2013

**Company delivers strong financial performance; hits 25%+ adj. EBITDA<sup>1</sup> margin in H2, improves service revenue growth in Q4, achieves 4G take-up on par with world's fastest**

### Full Year

- **Strong adj. EBITDA margin improvement:** Full year adj. EBITDA<sup>1</sup> improved +10.1% year-on-year (yoy) to £1,574m, a 24.3% (FY 2012: 21.5%) margin. H2 adj. EBITDA margin of 25.3% (H2 2012: 22.4%).
- **Excellent progress delivering post-merger synergy savings:** £457m (103%) of £445m target of annual gross opex merger synergies realised through relentless focus and successful execution of network, retail and supplier optimisation programmes.
- **Improving commercial momentum driven by strong 4G demand:** Full year service revenue stable at 0.0% yoy excluding regulatory cuts and -3.7% including regulatory impacts. Q4 service revenue +1.1% yoy excluding regulatory cuts and -1.5% including regulatory impact. High value postpaid base +756k (+5.6%) yoy. 4G customer base surpassed 2m in early January 2014.
- **Strengthening brand awareness and clear network leadership driving growth areas:** Independent recognition as the UK's biggest and fastest network, with 70% 4G population coverage, underpinned improved performance: in B2B, winning big UK businesses including Hoover, National Grid, Tate & Lyle Sugars and in 2014, Sky; in wholesale, secured Mobile Virtual Network Operator (MVNO) agreements with Asda, Phones 4u and Virgin Mobile; and in Fixed Broadband, grew revenues +10% yoy and customer base +4.6% yoy.

### Q4

- **4G customer base surges 816k to c. 2m:** 4G customer base grew +68% from Q3 to Q4 to reach 1.996m, with 4,100+ corporate customers, putting EE's 4G adoption rate on par with the world's fastest.
- **Successfully acquiring and retaining high value customers:** 194k postpaid net adds; 58% (Q4 2012: 52%) of base now postpaid, excluding machine-to-machine (M2M), delivering 6x more ARPU than prepaid. Prepaid base reduced 543k; prepaid revenue trend in line with industry shift towards postpaid. Effectively retaining postpaid customers, with churn of 1.2%, the 11<sup>th</sup> quarter in a row at 1.2% or below.
- **Further data revenue growth:** Data/text revenue +6ppts yoy to 56% (Q4 2012: 50%) of ARPU. Data (non-text) revenue +10ppts yoy to 44% (Q4 2012: 34%) of ARPU.

Full year unless otherwise noted	Year ended 31 December 2013	Year-on-year change (%)	Q4 year-on-year change (%)
<b>Turnover</b>	£6,482m	(2.6%)	(2.0%)
<b>Service revenue</b>	£5,734m	(3.7%)	(1.5%)
<b>Service revenue change</b> (ex. regulation)		0.0%	1.1%
<b>Adj. EBITDA</b>	£1,574m	10.1%	
<b>Adj. EBITDA margin</b>	24.3%	2.8ppts	
<b>H2 adj. EBITDA margin</b>	25.3%	2.9ppts	
<b>Q4 Postpaid net adds</b>	194k		
<b>Q4 Postpaid churn</b>	1.2%		0.0ppts

**Olaf Swantee, Chief Executive Officer of EE, commented:** *"We successfully executed our strategy, growing our pay monthly base, delivering our targeted cost savings and achieving our best margin yet, all while cementing EE's position as the UK's best network for consumers and businesses alike. 2013 was the year of 4G, with two million customers enjoying the benefits of superfast connectivity on Britain's most awarded network."*

<sup>1</sup> Adjusted EBITDA is EBITDA before Management and Brand Fees and Restructuring Costs. 2012 and 2013 Adj. EBITDA and EBITDA restated to reflect line-by-line consolidation of Mobile Broadband Network Ltd (MBNL) accounts, see appendix for details.

## **Operating Review**

During 2013, EE delivered on our strategy to transform our company into a clear market leader. We provided customers with the best network with the widest 4G coverage, an improved customer interface with a strong brand and new retail estate. We started to effectively monetise 4G with innovative propositions including the UK's first consumer Shared plans, speed-tiered plans and prepaid plans. This enabled us to deliver strong results, including excellent progress on cost savings and a significantly improved adj. EBITDA margin and stable underlying service revenue performance.

### **Our Customers: Improving service revenue by adding and retaining postpaid customers**

We maintained commercial momentum throughout the year, with underlying service revenue stable at 0.0% yoy. Including the impact of regulatory Mobile Termination Rate (MTR) and roaming cuts, service revenue was 3.7% lower yoy at £5,734m. In Q4, underlying service revenue improved +1.1%. Including regulatory impacts, service revenue was -1.5% in the quarter.

Over the year, we added 756k net postpaid customers, including 194k in Q4, increasing the postpaid proportion of our total base to 58% (Q4 2012: 52%), excluding M2M connections. Postpaid churn in Q4 was 1.2%, the 11<sup>th</sup> quarter in a row at 1.2% or below. The shift towards postpaid continues to drive improvement in underlying ARPU, up +6.1% (Q4 2012: 3.9%) yoy. Our 4G customer base reached c. 2m, with a surge of 816k customers in Q4, supported by our price range extension and 4G Shared and prepaid plans. Business adoption of 4G remains strong with 4,100+ corporates on 4GEE. We also introduced the world's first super-sized petabyte data bundles for businesses, underscoring EE's lead in network innovation and capacity.

Fixed broadband is rapidly becoming a more integral part of the company, with a greater emphasis on cross-selling mobile and fixed products. Q4 revenue growth was +12%, our eighth quarter of growth in a row.

### **Our Company: Optimising our operations ahead of plan**

We made continued progress on our network, retail and supplier optimisation programmes. We have decommissioned 6,010 redundant network sites since the inception of the programme, reduced our supplier base, integrated our warehouses and streamlined our retail estate by 59 stores in 2013 to c. 600 outlets. Full year indirect costs were reduced 3.1% yoy.

As a result of these efforts, we are making strong progress on synergy targets. A total of £457m annual gross opex savings have been realised, exceeding the £445m initially targeted for the merger. These achievements have helped us to deliver an adj. EBITDA margin of 25.3% in the second half, the best since EE's formation.

### **Our Future: Effectively monetising the data opportunity**

We made good progress strengthening and monetising our network leadership. We secured the UK's best spectrum portfolio for mobile data services, with an industry-leading 36% share of airwaves. Leveraging this advantage and our £1.5bn investment focused on new 2G/4G equipment and backhaul, we are the only UK network providing double speed 4G and greater capacity across 20 UK cities. By January 2014, we covered 160 towns and cities and 70% of the population – 45m people – with 4G. Independent benchmarking by RootMetrics<sup>®</sup> ranked EE number one for overall performance of any UK network in all 32 tests in 2013.

We are effectively monetising both the quality and speed of our mobile internet experience and the quantity of mobile data, with standard 4G and 4G Extra price plans, each with tiered data bundles. We continue to successfully upgrade existing customers to 4G, with migrations showing high single digit percentage increases in ARPU and an increased portion of our revenue captured in the monthly access fee. We are also seeing good demand for our new double speed 4G Extra plans. Data and messaging revenues continue to rise rapidly, reaching 56% of ARPU in Q4, against 50% in Q4 2012, with data (non-text) revenue up to 44% of ARPU compared to 34% in Q4 2012.

We are also leveraging our network capacity to maximise connections on our network. We have 29 MVNO partners, including re-signing Virgin Mobile, signing ASDA Mobile and Phones 4u. Our M2M business grew rapidly in the year, with the base up 18.6% yoy to 1.64m connections.

### **Dividend and Capital Structure**

In the second half, we paid £269m in dividends. Standard & Poors raised EE's long and short-term corporate credit ratings to 'BBB/A-2' with a stable outlook from 'BBB-/A-3' in August, recognising EE's improving financial performance. At the end of the year, our leverage ratio was 1.3x Net Debt to EBITDA.

### **2014 Financial Outlook**

In 2014, we plan to retain mobile service revenue leadership, achieve 25%+ adj. EBITDA margin and grow EBITDA minus CAPEX. We remain committed to a leverage ratio below 1.75-2x.

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**About EE**

EE is the largest and most advanced digital communications company in Britain, delivering mobile and fixed communications services to consumers, businesses, government and the wholesale market. With approximately 15,000 employees and 600 retail stores, EE serves more than 27 million customers on EE, Orange and T-Mobile mobile and broadband plans.

EE runs the UK's biggest and fastest mobile network, having introduced the UK's first superfast 4G mobile service in 2012. EE's 4G coverage reaches almost 70% of the UK population. EE's 2G coverage reaches 99% of the population while 3G reaches 98%. EE's superfast fibre broadband service covers 54% of the UK population, and ADSL broadband service covers 98.7% of the population.

EE has received extensive independent recognition including being ranked the UK's best overall network by RootMetrics®, Fastest Network at the 2013 uSwitch Awards, Best Network at the 2013 Mobile Choice Consumer Awards and What Mobile Awards, Network Innovation at the 2013 Recombu awards and Best Network for Business at the 2013 Mobile Industry awards.

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## EE Results for the year to 31 December 2013

		Q4/12	Q4/13	Movement
Customers (end of period)	('000)	28,232	27,148	(3.8%)
- Postpay mobile	('000)	13,594	14,350	5.6%
- Prepay mobile	('000)	12,554	10,424	(17.0%)
- Fixed total	('000)	698	730	4.6%
- Fixed broadband	('000)	693	726	4.8%
- Fixed narrowband	('000)	5	4	(20.0%)
- Machine to Machine	('000)	1,386	1,644	18.6%
Net customer additions	('000)	76	(261)	
- Postpay mobile	('000)	201	194	
- Prepay mobile	('000)	(239)	(543)	
- Fixed broadband	('000)	(29)	12	
- Fixed narrowband	('000)	(1)	(1)	
- Machine to Machine	('000)	144	77	
Average monthly churn mobile	(%)	2.3%	2.5%	0.2ppts
- Postpay mobile	(%)	1.2%	1.2%	0.0ppts

		Q4/12	Q4/13	H2/12	H2/13	Q4 yoy	H2 yoy	FY/12	FY/13	Movement
Turnover	(£'m)	1,672	1,639	3,343	3,270	(2.0%)	(2.2%)	6,657	6,482	(2.6%)
Turnover underlying growth yoy	(%)					0.3%	0.2%			0.7%
Mobile service revenue	(£'m)	1,467	1,445	2,963	2,891	(1.5%)	(2.4%)	5,953	5,734	(3.7%)
Mobile service revenue underlying growth yoy	(%)					1.1%	0.2%			0.0%
EBITDA#	(£'m)			545	706		29.5%	1,105	1,313	18.8%
Adjusted EBITDA#	(£'m)			748	828		10.7%	1,429	1,574	10.1%
Restructuring costs included in EBITDA	(£'m)			90	33		(63.3%)	106	79	(25.5%)
EBITDA margin (total revenue)	(%)			16.3%	21.6%			16.6%	20.3%	
Adj EBITDA margin (total revenue)	(%)			22.4%	25.3%			21.5%	24.3%	
Capital expenditure excluding spectrum#	(£'m)			387	266		(31.3%)	649	583	(10.2%)

Mobile		Q4/12	Q4/13	Movement
Subscriber Acquisition Cost (SAC) per gross addition	(£)	55	61	10.9%
- Postpay	(£)	146	142	(2.7%)
- Prepay	(£)	7	7	0.0%
Subscriber Retention Cost (SRC) per retained customer	(£)	206	155	(24.8%)
Average Revenue Per User (ARPU) (monthly average)	(£)	18.6	19.2	3.2%
ARPU underlying growth yoy	(%)			6.1%
- Postpay	(£)	30.7	29.7	(3.3%)
- Prepay	(£)	5.7	5.1	(10.5%)
Voice ARPU (monthly average)	(£)	9.3	8.4	(9.7%)
Non-voice % of ARPU	(%)	50.2	56.1	5.9ppts
Minutes Of Use per customer per month	(min)	195	208	6.7%
- Postpay	(min)	335	332	(0.9%)

#restated to reflect MBNL consolidation on a line by line basis.

## Appendix MBNL restatement

Under IFRS 10, 11 and 12, EE now consolidates Mobile Broadband Network Ltd (MBNL), a joint operation with Hutchison 3G UK Ltd, on a line-by-line basis. EE has chosen to immediately adopt the new accounting standards to accurately reflect the way the business is managed. Previously, MBNL was accounted for using the equity method. The impact on reported financials is set out below, revenue and net income are unchanged.

Before line-by-line consolidation:

	H1/12	H2/12	FY/12	H1/13	H2/13	FY/13
Adj EBITDA (£'m)	673	737	1,410	734	814	1,548
-Margin	20.3%	22.0%	21.2%	22.9%	24.9%	23.9%
EBITDA (£'m)	551	535	1,086	595	692	1,287
-Margin	16.6%	16.0%	16.3%	18.5%	21.2%	19.9%
Capex (£'m)	245	361	606	295	247	542

Restated, after line-by-line consolidation;

	H1/12	H2/12	FY/12	H1/13	H2/13	FY/13
Adj EBITDA (£'m)	681	748	1,429	746	828	1,574
-Margin	20.6%	22.4%	21.5%	23.2%	25.3%	24.3%
EBITDA (£'m)	560	545	1,105	607	706	1,313
-Margin	16.9%	16.3%	16.6%	18.9%	21.6%	20.3%
Capex (£'m)	262	387	649	317	266	583