

Company Number: 2382161

EE Limited

Interim condensed consolidated financial statements

For the six months ended 30 June 2015

EE Limited

Contents

Consolidated income statement	1
Consolidated statement of comprehensive income	2
Consolidated statement of financial position	3
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	6
Notes to the interim condensed consolidated financial statements	7
Independent review report to the members of EE Limited	14

EE Limited

Consolidated income statement For the 6 month period ended 30 June 2015

		6 months ended 30 June 2015	6 months ended 30 June 2014
		Unaudited	
Note		£m	£m
	Revenue	3,116	3,114
	External purchases	(2,006)	(2,069)
	Other operating income	28	21
	Other operating expense	(134)	(181)
	Staff costs	(229)	(202)
	Amortisation and depreciation	(596)	(606)
	Restructuring expenses	(4)	(26)
	Group operating profit	175	51
	Finance income	-	-
	Finance expense	(47)	(52)
	Finance costs net	(47)	(52)
	Share of losses of associates and joint ventures	(1)	(3)
	Profit/(loss) before tax	127	(4)
	Income tax (charge) / credit	(30)	5
	Profit for the period attributable to the equity holders of the parent	97	1

EE Limited

Consolidated statement of comprehensive income For the 6 month period ended 30 June 2015

	6 months ended 30 June 2015	6 months ended 30 June 2014
	Unaudited	
	£m	£m
Profit for the period attributable to the equity holders of the parent	97	1
Other comprehensive income		
<i>Items that may be subsequently reclassified to Income Statement</i>		
Cash flow hedges		
- Loss recycled in the Income Statement during the period	89	10
- Fair value loss arising in the period	(102)	(3)
Deferred tax relating to cash flow hedges	-	-
Other comprehensive (loss) / income for the period	(13)	7
Total comprehensive income for the period attributable to the equity holders of the parent	84	8

EE Limited

Consolidated statement of financial position

As at 30 June 2015 & 31 December 2014

Company number: 2382161

	Note	30 June 2015 Unaudited £m	31 December 2014 Audited £m
Non current assets			
Intangible assets	4.4	9,475	9,789
Property, plant and equipment	4.5	2,298	2,337
Associates and joint ventures		-	3
Deferred tax asset		189	219
Derivative financial instruments		-	7
Other non current assets		56	22
Total non current assets		12,018	12,377
Current assets			
Inventories		86	77
Trade and other receivables		1,007	992
Other financial assets	4.3	80	2
Cash and cash equivalents		105	411
Total current assets		1,278	1,482
Total assets		13,296	13,859
Current liabilities			
Trade and other payables		(2,030)	(2,230)
Provisions		(83)	(204)
Derivative financial instruments		(19)	(10)
Total current liabilities		(2,132)	(2,444)
Non current liabilities			
Derivative financial instruments		(93)	(26)
Provisions		(196)	(204)
Interest bearing loans and borrowings	4.7	(2,227)	(2,082)
Pension liability		(153)	(159)
Other non current liabilities		(19)	(23)
Total non current liabilities		(2,688)	(2,494)
Total liabilities		(4,820)	(4,938)
Total net assets		8,476	8,921

EE Limited

Consolidated statement of financial position (continued) As at 30 June 2015 & 31 December 2014

	30 June 2015 Unaudited £m	31 December 2014 Audited £m
Capital and reserves		
Share capital	22	22
Share premium account	1,638	1,638
Capital contribution reserve	196	196
Cash flow hedge reserve	(8)	5
Retained earnings	(4,435)	(4,003)
New basis reserve	11,063	11,063
Total equity	8,476	8,921

These interim financial statements were approved by the board of Directors on 23 July 2015 and were signed on its behalf by



Neal Milsom
Director

EE Limited

Consolidated statement of changes in equity For the 6 month period ended 30 June 2015

	Share capital	Share premium account	Capital contribution reserve	New basis reserve	Retained earnings	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m	£m
Unaudited							
At 1 January 2014	22	1,638	196	11,063	(3,192)	6	9,733
Loss for the period	-	-	-	-	1	-	1
Cash flow hedges							
Gain recycled through profit or loss	-	-	-	-	-	10	10
Fair value gain arising in the period	-	-	-	-	-	(3)	(3)
Deferred tax relating to cash flow hedges	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	1	7	8
Dividends declared and paid	-	-	-	-	(392)	-	(392)
At 30 June 2014	22	1,638	196	11,063	(3,583)	13	9,349
Unaudited							
At 1 January 2015	22	1,638	196	11,063	(4,003)	5	8,921
Profit for the period	-	-	-	-	97	-	97
Cash flow hedges							
Loss recycled through profit or loss	-	-	-	-	-	89	89
Fair value loss arising in the period	-	-	-	-	-	(102)	(102)
Deferred tax relating to cash flow hedges	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	97	(13)	84
Dividends declared and paid	-	-	-	-	(529)	-	(529)
At 30 June 2015	22	1,638	196	11,063	(4,435)	(8)	8,476

EE Limited

Consolidated statement of cash flows For the 6 month period ended 30 June 2015

	6 months ended 30 June 2015	6 months ended 30 June 2014
	Unaudited	
	£m	£m
Operating activities		
<i>Profit for the period</i>	97	1
<i>Adjustments to reconcile the profit for the period to cash generated from operations</i>		
Depreciation and amortisation	596	606
Loss/(gain) on disposal of property, plant and equipment	1	(2)
Difference between pension contributions and amounts recognised in income statement	(5)	(34)
Change in other provisions (excluding discount unwind)	(133)	(32)
Net finance expense	47	52
Share of losses of associates and joint ventures	1	3
Loss on disposal of investment	4	-
Income tax	30	(5)
<i>Changes in working capital requirements</i>		
Increase in inventories	(9)	(5)
Increase in trade and other receivables	(15)	(149)
(Decrease) / Increase in trade and other payables	(204)	10
Increase in other long-term assets	(34)	(3)
Interest paid and interest rates effects on derivatives	(37)	(44)
Net cash provided by operating activities	339	398
Investing activities		
Purchases of property, plant and equipment and intangible assets	(249)	(268)
Investment in joint ventures	(2)	-
Net cash used in investing activities	(251)	(268)
Financing activities		
<i>Proceeds from new borrowings</i>		
Non-current borrowings	215	-
Cash collateral – paid	(80)	(26)
Dividends paid	(529)	(392)
Net cash used in financing activities	(394)	(418)
Net change in cash and cash equivalents	(306)	(288)
Cash and cash equivalents at the beginning of the period	411	423
Cash and cash equivalents at the end of the period	105	135

EE Limited

Notes to the interim condensed consolidated financial statements

1. General information

The interim condensed consolidated financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006.

The financial information for the year ended 31 December 2014 is based on the statutory accounts for that period. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498(2) or (3) of the Companies Act 2006.

The interim condensed consolidated financial statements do not include all the information and disclosure included in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2014.

The interim condensed consolidated financial statements are unaudited but have been reviewed by the auditors. Their review report is included at the end of this report.

The interim condensed consolidated financial statements for the period ended 30 June 2015 were approved by the board of Directors on 23 July 2015.

2. Background

EE Limited ("EE" or "the Group") is principally involved with the operation of a national digital wirefree personal communications network, and the provision of digital telecommunications services. The Group continues to invest in the development of digital mobile communications technology. EE as a Group trades under the brand names EE, Orange and T-Mobile.

Within the 6 months to 30 June 2015 the Group has made net profit of £97 million (6 months ended 30 June 2014: net profit of £1 million), and has paid a dividend of £529 million (6 months ended 30 June 2014: £392 million).

3. Accounting policies

3.1 Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. These interim condensed consolidated financial statements have been prepared in accordance with IAS34 "Interim Financial Reporting" as issued by the International Accounting Standards Board and endorsed and adopted for use in the European Union. Consequently, the interim financial statements do not include all the disclosures that would be required in a full set of financial statements and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2014. The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2014.

The tax for the 6 months ended 30 June 2015 is based on the estimated effective tax rate for the year ending 31 December 2015.

3.2 Adoption of new and current standards

No new standards have become effective as of 1 January 2015.

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing after 1 January 2016 and we consider will have an impact on the Group and Company financial statements:

- IFRS 9 '*Financial Instruments*', published in July 2014, will become effective as of 1 January 2018.
- IFRS 15 '*Revenue from Contracts with Customers*', published in May 2014, will become effective as of 1 January 2017.

The Group will normally adopt new standards at the effective date.

EE Limited

Notes to the interim condensed consolidated financial statements (continued)

3.3 Going concern

The Group is expected to continue to generate positive operating cash flows for the foreseeable future. Although the Group is in a net current liability position at the period end, the forecast cash flows and headroom on facilities indicate that the Group will be able to meet liabilities as they fall due.

The Group has a number of financing arrangements in place that it is reliant upon to remain a going concern. These remain extant for at least twelve months following the approval of these interim accounts. The Group has the ability to raise further funds under its European Medium Term Note Programme if required.

On the basis of the assessment of the Group's financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the interim condensed consolidated financial statements for the 6 months ended 30 June 2015.

4. Explanatory notes

4.1 Revenue

	6 months ended 30 June 2015 £m	6 months ended 30 June 2014 £m
Mobile service revenue	2,743	2,795
Other	<u>373</u>	<u>319</u>
Total revenue	<u>3,116</u>	<u>3,114</u>

Other revenue consists of equipment, fixed broadband and wholesale revenues.

4.2 Operating segments

The Group supplies communication services and products to the UK market, through a national telecommunications network. This is considered to be a single group of services and products provided by an inter-dependent asset infrastructure, to one geographical area. The Group has focused upon integration since the formation of the Group in its current structure and produces all operating results, forecasts and budgets at the consolidated level for the purposes of allocating resources. Operationally the Group has demonstrated its unity to its customers by providing free roaming across the one EE branded network. Due to these factors there are not considered to be separable identifiable operating segments for which financial information can be presented.

EE Limited

Notes to the interim condensed consolidated financial statements (continued)

4.3 Financial risk management

The Group monitors a variety of key performance indicators (“KPIs”) as part of its financial risk management. These KPIs are not defined by IFRS and may not be comparable to other similarly-titled indicators used by other companies. They are provided as additional information only.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”)

	6 months ended 30 June 2015	6 months ended 30 June 2014
	£m	£m
Profit/(loss) before tax	127	(4)
<i>Add back:</i>		
Net finance costs	47	52
Share of losses of associates and joint ventures	1	3
Amortisation and depreciation	596	606
EBITDA	771	657
<i>Add back:</i>		
Management and brand fees	55	77
Restructuring costs	4	26
Adjusted EBITDA	830	760

Net debt

The Group monitors the net debt position on a monthly basis as this forms the basis the Group’s bank covenant agreements. The key sources of finance are as follows:

- a £437.5 million term loan with a maturity date of 16 November 2016
- a £437.5 million revolving credit facility (“RCF”) with a maturity date of 16 November 2016
- a £350 million European Investment Bank loan with a maturity date of 28 December 2017
- a £3,000 million euro medium term note programme (“EMTN”) under which the Group has made the following issuances:
 - €500 million with a maturity date of 6 February 2017;
 - €600 million with a maturity date of 3 August 2018; and
 - £450 million with a maturity date of 28 March 2019.

EE Limited

Notes to the interim condensed consolidated financial statements (continued)

4.3 Financial risk management (continued)

Net financial debt used by the Group is defined within the Group's bank covenant agreements. It corresponds to financial liabilities excluding unamortised transaction costs and excluding operating payables (translated at the period-end closing rate), less:

- (i) cash collateral paid on derivative instruments; and
- (ii) cash and cash equivalents and financial assets at fair value.

Net financial debt	30 June 2015 £m	31 December 2014 £m
Revolving credit facility	215	-
Syndicated bank loans	438	438
€500m 3.5% notes due 2017	355	388
€600m 3.25% notes due 2018	427	466
£450m 4.375% notes due 2019	450	450
Finance lease liabilities	5	5
European Investment Bank loan	350	350
Financial indebtedness	2,240	2,097
Less:		
Cash collateral paid	(80)	-
Cash	(105)	(411)
Net Financial Debt	2,055	1,686

4.4 Intangible assets

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. The Group's impairment test for goodwill is based upon value-in-use calculations that use a discounted cash flow model. The key assumptions used to determine the valuation of goodwill were disclosed in the annual financial statements for the year ended 31 December 2014.

The directors consider that no indicators of impairment existed as at 30 June 2015.

Spectrum intangible assets

The 4G mobile telephone licence was brought into use in 2014 and amortisation was subsequently commenced.

EE does not consider any indication of impairment exists as at 30 June 2015.

4.5 Acquisitions and disposals of items of property, plant and equipment

The cost of acquisitions of items of property, plant and equipment in the interim period totalled £213 million (6 months ended 30 June 2014: £268 million). The majority of this value relates to Network and IT.

4.6 Events in the period

During the period, the Group reached agreements on settlements with various operators relating to the provision for historic non-geographic number disputes.

The Group has also recognised £20m income in relation to a contract amendment.

EE disposed of its investment in Weve Ltd, resulting in a £4 million loss on disposal of investment.

EE Limited

Notes to the interim condensed consolidated financial statements (continued)

4.7 Interest bearing loans and borrowings

Group	Interest rate	Maturity	30 June 2015 £m	31 December 2014 £m
Non-current	%			
Euro medium term notes – five year bond	3.5	6 February 2017	354	399
Euro medium term note – seven year bond	4.375	28 March 2019	447	446
Euro medium term note – six year bond	3.25	3 August 2018	425	478
Revolving credit facility	LIBOR (1 mth) plus 0.95%	November 2016	215	-
Syndicated loan facilities	LIBOR (6 mth) plus 0.95%	November 2016	436	435
European Investment Bank loan	2.21	December 2017	350	350
			<u>2,227</u>	<u>2,108</u>

The carrying amounts for financial liabilities approximate their fair value.

4.8 Capital commitments

The Group has £437 million of capital commitments as at 30 June 2015 (31 December 2014: £461 million).

4.9 Financial Instruments

Risk management activities – cash flow hedges

As at 30 June 2015, the Group held foreign currency forward contracts designated as hedges in respect of certain of its operating cash flows which are designated in foreign currencies. The Group manages the interest rate and foreign currency risks of its Euro designated loans by utilising cross currency interest rate swaps (“CCIRS”). These hedges were assessed to be effective and an unrealised loss of £102 million was included in other comprehensive income.

Borrowing and repayment of debt

The Group’s borrowings are described in note 4.7 above.

The revolving credit facility of £437.5 million has been fully utilised and partially repaid in the six months ended 30 June 2015 in order to service working capital requirements. The remaining amount of £222.5 million is available for future draw down.

EE Limited

Notes to the interim condensed consolidated financial statements (continued)

4.9 Financial Instruments (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques that use inputs that have a significant effect on the recorded fair value, which are not based upon observable market data.

As at 30 June 2015 the Group held the following financial instruments carried at fair value in the statement of financial position:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Foreign exchange forward contracts	-	-	-	-
Cross currency interest rate swaps	-	-	-	-
Financial liabilities				
Foreign exchange rate forward contracts	-	(19)	-	(19)
Cross currency interest rate swaps	-	(93)	-	(93)
Total	-	(112)	-	(112)

Valuation techniques

The foreign currency contracts and CCIRS are measured based upon observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. All contracts are fully cash collateralised, thereby minimising both counterparty and the Group's own credit risk.

There is no material difference between the carrying values of the Group's non-derivative financial assets and financial liabilities and their fair values at the balance sheet date.

EE Limited

Notes to the interim condensed consolidated financial statements (continued)

4.10 Related party transactions

The Group's significant related parties are the companies within the Orange S.A. ("Orange") group and companies within the Deutsche Telekom A.G. ("DT") group.

The following table sets out the trading transactions between the Group and related parties during the six months ended 30 June 2015 and 2014, together with trading balances with related parties as at 30 June 2015 and 31 December 2014.

		Sales to related parties	Purchases from related parties	Due to related parties	Due from related parties	Loans to related parties	Accrued interest receivable	Cash deposits with related parties
		£m	£m	£m	£m	£m	£m	£m
Orange S.A.	2015	7	41	25	13	-	-	20
	2014	6	56	35	23	-	-	179
Deutsche Telekom A.G.	2015	6	74	30	14	-	-	20
	2014	4	104	50	32	-	-	179
Joint ventures	2015	1	-	-	-	-	-	-
	2014	1	-	-	1	-	-	-
Associates	2015	-	1	-	-	-	-	-
	2014	-	-	-	-	-	-	-

4.11 Events after the balance sheet date

None noted.

Independent review report to EE Limited

Introduction

We have been engaged by the company to review the condensed consolidated set of financial statements in the interim financial report for the six months ended 30 June 2015 which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

As disclosed in note 3.1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst & Young LLP

Ernst & Young LLP
London
24 July 2015