



London. 19 February 2013.

## EE Results for the Year Ended 31 December 2012

**A transformational year – a new company, network, customer brand, retail estate and first with 4G in the UK**

### Full Year

- **Maintained commercial momentum:** Service revenue +2.7% year-on-year (yoy) excluding regulatory Mobile Termination Rate (MTR) and roaming cuts; including impact of regulatory cuts -2.6%
- **Achieved progress on adj. EBITDA<sup>1</sup> margin in competitive market:** adj. EBITDA margin of 21.2% (FY 2011: 20.9%); H2 2012 margin of 22.0% (H2 2011: 21.5%)
- **Advanced synergy savings:** Merger cost savings reach £369m (83%) of £445m annual gross opex savings target; on track for £3.5bn+ NPV in synergies by 2014
- **Improved quality of customer base and strong customer retention:** Solid postpaid growth with net additions of 752k (+5.9% yoy) postpaid customers; strong customer retention with four consecutive quarters of low 1.2% postpaid churn

### Q4

- **Further improvement in customer value mix:** 201k postpaid net adds; 52% of customers now postpaid (Q4 2011: 48%) delivering five times more Average Revenue Per User (ARPU) than prepaid; access fees increased +6% yoy; prepaid base down 239k in-line with industry trends
- **Strong smartphone adoption:** Postpaid smartphone adoption up 9 ppts yoy to 78% (Q4 2011: 69%); 94% (Q4 2011: 88%) of new postpaid customers selected smartphones
- **Data revenue growth continued:** Data/text revenues up 7 ppts yoy to 50% (Q4 2011: 43%) of ARPU; data (non-text) revenue up 10 ppts yoy at 34% (Q4 2011: 24%) of ARPU
- **First to launch 4G mobile services in the UK along with fibre broadband:** Record-setting 4G rollout with population coverage ahead of target at 43% by year-end; independent research from RootMetrics<sup>2</sup> found EE runs the fastest, most reliable data and voice network
- **Successfully introduced the EE brand:** 43% spontaneous awareness in two months

Full year unless otherwise noted	Year ended 31 December 2012	Year-on-year change (%)	Q4 year on year change (%)
Service revenue	£5,953m	(2.6%)	(3.9%)
Service revenue change (ex. regulation)		2.7%	1.5%
Adj. EBITDA	£1,410m	(0.4%)	
Adj. EBITDA margin	21.2%	0.3ppts	
Q4 Postpaid Net Adds (excluding MVNOs)	201k		
Q4 Postpaid Churn	1.2%		0.1ppts

**Olaf Swantee, Chief Executive Officer of EE, commented:** “In the past year, we delivered solid financial performance, underpinned by good progress integrating the business and success in attracting high value customers. At the same time, we built a strong platform for growth, launching a new company, new network, new customer brand, new retail estate and being the first to provide UK consumers and businesses with 4G mobile services alongside fibre broadband.”

<sup>1</sup> Adjusted EBITDA is EBITDA before Management and Brand Fees and restructuring costs

<sup>2</sup> Based on research conducted by RootMetrics in select UK cities: [www.rootmetrics.com/uk/](http://www.rootmetrics.com/uk/)

## Operating Review

In 2012 we made significant progress executing on our vision to provide the best network and the best service so our customers trust us with their digital lives. We maintained commercial momentum, with underlying service revenue up 2.7% yoy and full year adjusted EBITDA margin improved to 21.2%, against a background of macroeconomic weakness, regulatory pressures and a highly competitive market. For Q4, service revenue was +1.5% excluding the impact of regulation, while including the regulated impact of MTRs, service revenue was -3.9%.

Over the past year, we continued to invest in our network with capex of 9.1% of turnover. We made good progress upgrading and integrating our 2G and 3G network and launching 4G services to deliver the UK's fastest, most reliable data and voice network experience for customers, validated by independent research from RootMetrics. By the end of 2012 just two months after launch, we achieved 43% population coverage, surpassing our rollout targets. We also introduced the new EE brand, achieving spontaneous consumer brand awareness of 43% by year-end.

Our network leadership strategy drove success in increasing the quality of our customer base. We grew our postpaid smartphone customer base and accelerated postpaid access fee growth by attracting customers to higher value price plans on EE, Orange and T-Mobile to drive value creation in the business. We successfully advanced our synergy programme. We continued to make consistent progress toward our performance goals and remain on track to deliver our 2014 financial targets.

### **Our Customers: Improved customer value mix with solid postpaid adds and low churn**

We saw healthy commercial momentum with 752k net postpaid additions in 2012, with a net postpaid increase of 201k in Q4. We also saw a 20% yoy increase in postpaid renewals in H2.

At year-end, 52% of our customers were postpaid customers (Q4 2011: 48%) that on average generate five times higher ARPU than prepaid customers, which drove an increase of 3.9% in underlying Blended (combining pre- and postpaid) ARPU in Q4.

We successfully upgraded existing customers to higher value plans, resulting in our postpaid access fees increasing 6% yoy. 80% of our postpaid customers are on two year contracts, up from 74% a year ago. Customer retention remains strong, with sustained low customer churn of 1.2%.

### **Our Company: Progressed lowering cost base**

During the year we made substantial progress simplifying and streamlining the business to reduce costs. Our Network Optimisation programme completed the year on track. 2,659 sites were decommissioned, 39% of which occurred in Q4. We completed supply chain and retail IT systems integration. We also refurbished our entire retail estate giving all customers access to sales and service in all our stores, and announced plans to close 78 redundant stores in 2013.

We reduced indirect costs by 3.1% yoy. We achieved an annual run rate of £369m in gross opex savings or 83% of the £445m annual run rate goal and are on track for £3.5bn+ NPV in synergy savings by 2014.

This has improved our full year adjusted EBITDA margin to 21.2%, with H2 adjusted EBITDA margin reaching 22.0%. We generated free cash flow (EBITDA minus capex) for the year of £479m, following investments in network and IT transformation projects to improve the customer experience and lower long term operating costs.

### **Our Future: Successfully leveraging the data opportunity**

We continue to pursue our growth strategy of increasing smartphone penetration and growing data revenues. The percent of postpaid customers using smartphones rose 9 ppts during the year to 78%. Non-voice revenues (data and messaging) rose rapidly, reaching 50% in Q4, against 43% in Q4 2011, with non-messaging data revenue up to 34% against 24% in Q4 2011.

We are seeing solid early 4G momentum migrating Orange and T-Mobile customers to higher value EE 4G price plans in areas where 4G coverage is available. Early Orange and T-Mobile customers migrating to 4G on EE are showing increases of approximately 10% in ARPU, demonstrating data monetisation.



For our EE customers using 4G, we introduced new data services such as EE Film and Clone Phone, a cloud-based data backup service. We saw 4G customers increase their online shopping and mobile banking, streaming video and video calling, and using Satellite Navigation.

We are also seeing early 4G momentum with business customers from diverse industry sectors and of all sizes. More than 10% of our corporate customers are trialling or using 4G including Gatwick Airport, Kier, Microsoft, Morrisons, Saatchi & Saatchi Fallon Group, Sony Music and TNT Post. One in four new SME customers are now selecting 4G services.

We continued to rollout 4G rapidly in the UK, announcing plans to cover 65 towns and cities and 55% of the population by June 2013. Our ability to offer this service is increasing our competitive differentiation and creates the opportunity to further enhance the value of our customer base.

In our emerging growth segments, our fixed broadband business achieved double digit yoy growth in revenues, and we saw a nearly 40% yoy increase in our machine-to-machine base to nearly 1.4m.

### **Dividend and Capital Structure**

An interim 2012 dividend of £191m was paid in Q3 2012. A final 2012 dividend of £189m has been approved for payment in March 2013.

In 2012, EE continued to establish its presence in the capital markets with three issuances under its Euro Medium Term Note programme totalling £1.3bn and agreement of a £350m term loan with the European Investment Bank.

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### **Media Contacts:**

Dan Perlet  
dan.perlet(at)ee.co.uk

### **Investor Relations Contacts:**

Deutsche Telekom Investor Relations:  
investor.relations(at)telekom.de or +49 228 181 888 80

France Telecom – Orange investor relations:  
didier.kohn(at)orange.com or +33 1 44 44 72 53

### **About EE**

EE is the most advanced digital communications company in Britain, providing mobile and fixed-line services to 27 million customers, and is the first company in the UK to provide 4G mobile services alongside fixed-line fibre. EE runs the Orange, T-Mobile and EE brands in the UK.

Its 4G service covers 43% of the population, and EE continues to improve the speed and reach of the UK's first 4G network. Its fibre service already covers 50% of the population. EE's mobile service currently provides coverage to 99% of the population with 2G and 98% of the population with 3G.

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## EE Results for the year to 31 December 2012

		Q4/11	Q4/12	Movement
<b>Customers excluding MVNOs (end of period)</b>	<b>(<sup>'000</sup>)</b>	27,563	26,846	(2.6%)
- Postpay mobile	<b>(<sup>'000</sup>)</b>	12,842	13,594	5.9%
- Prepay mobile	<b>(<sup>'000</sup>)</b>	13,992	12,554	(10.3%)
- Fixed total	<b>(<sup>'000</sup>)</b>	729	698	(4.3%)
- Fixed broadband	<b>(<sup>'000</sup>)</b>	713	693	(2.8%)
- Fixed narrowband	<b>(<sup>'000</sup>)</b>	16	5	(68.8%)
<b>Net customer additions</b>	<b>(<sup>'000</sup>)</b>	70	(68)	
- Postpay mobile	<b>(<sup>'000</sup>)</b>	313	201	
- Prepay mobile	<b>(<sup>'000</sup>)</b>	(241)	(239)	
- Fixed broadband	<b>(<sup>'000</sup>)</b>	0	(29)*	
- Fixed narrowband	<b>(<sup>'000</sup>)</b>	(2)	(1)	
<b>Average monthly churn mobile</b>	<b>(%)</b>	2.4%	2.3%	(0.1ppts)
- Postpay mobile	<b>(%)</b>	1.1%	1.2%	0.1ppts

\*Fixed broadband customer base decreased by 29k customers in Q4 following the withdrawal of a free broadband promotional tariff. Business reported underlying base growth of 8k net adds.

		Q4/11	Q4/12	H2/11	H2/12	Q4 yoy	H2 yoy	FY/11	FY/12	Movement
<b>Turnover</b>	<b>(£'m)</b>	1,720	1,672	3,417	3,343	(2.8%)	(2.2%)	6,784	6,657	(1.9%)
<b>Turnover underlying growth yoy</b>	<b>(%)</b>					2.0%	3.0%			3.0%
<b>Mobile service revenue</b>	<b>(£'m)</b>	1,526	1,467	3,068	2,963	(3.9%)	(3.4%)	6,112	5,953	(2.6%)
<b>Mobile service revenue underlying growth yoy</b>	<b>(%)</b>					1.5%	2.3%			2.7%
<b>EBITDA</b>	<b>(£'m)</b>			589	535		(9.2%)	1,171	1,085	(7.3%)
<b>Adjusted EBITDA</b>	<b>(£'m)</b>			733	737		0.5%	1,416	1,410	(0.4%)
<b>Restructuring costs included in EBITDA</b>	<b>(£'m)</b>			49	90		83.7%	75	106	41.3%
<b>EBITDA margin (total revenue)</b>	<b>(%)</b>			17.2%	16.0%			17.3%	16.3%	
<b>Adj EBITDA margin (total revenue)</b>	<b>(%)</b>			21.5%	22.0%			20.9%	21.2%	
<b>Capital expenditure</b>	<b>(£'m)</b>			351	361		2.8%	567	606	6.9%

Mobile		Q4/11	Q4/12	Movement
<b>Subscriber Acquisition Cost (SAC) per gross addition</b>	<b>(£)</b>	56	55	(1.8%)
- Postpay	<b>(£)</b>	156	146	(6.4%)
- Prepay	<b>(£)</b>	10	7	(30.0%)
<b>Subscriber Retention Cost (SRC) per retained customer</b>	<b>(£)</b>	172	206	19.8%
<b>Average Revenue Per User (ARPU) (monthly average)</b>	<b>(£)</b>	18.9	18.6	(1.6%)
<b>ARPU underlying growth yoy</b>	<b>(%)</b>			3.9%
- Postpay	<b>(£)</b>	32.5	30.7	(5.5%)
- Prepay	<b>(£)</b>	6.7	5.7	(14.9%)
<b>Voice ARPU (monthly average)</b>	<b>(£)</b>	10.8	9.3	(13.9%)
<b>Non-voice % of ARPU</b>	<b>(%)</b>	42.8	50.2	7.4ppts
<b>Minutes Of Use per customer per month</b>	<b>(min)</b>	198	195	(1.5%)
- Postpay	<b>(min)</b>	359	335	(6.7%)

