

EE

H1 2014 RESULTS



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Adj. EBITDA margin improves with postpaid and 4G growth, as well as cost savings

Strong take up of 4G mobile services and accelerating B2B momentum:

- 4G base doubles in H1 to 4.2m, up 1.3m qoq. On track to exceed 6m by end of the year.
- 72% new postpaid customers selected 4G; 88% of new B2B customers. 5,500+ corporates on 4G.

Improved first half adj. EBITDA margin:

- H1 adj. EBITDA of £760m, a margin of 24.4%, up 1.2 pts yoy (H1 2013: 23.2%), with growth in postpaid customers and further cost savings, including network and retail optimisation, and operational efficiencies.

Steady underlying operating revenue performance:

- H1 operating revenue stable at 0.1% yoy excluding regulatory impact and -1.3% including regulatory impact. Q2 operating revenue -0.7% yoy excluding regulatory impact and -0.9% yoy including regulatory impact.
- ARPU growth of +2.7% yoy (Q1 2014: +5.1%) excluding regulatory impact, and +2.2% (Q1 2014: +2.2%) including regulatory impact. Data (non-text) revenue +7 pts yoy to 48% (H1 2013: 41%) of ARPU.

Strong acquisition and excellent retention of postpaid customers:

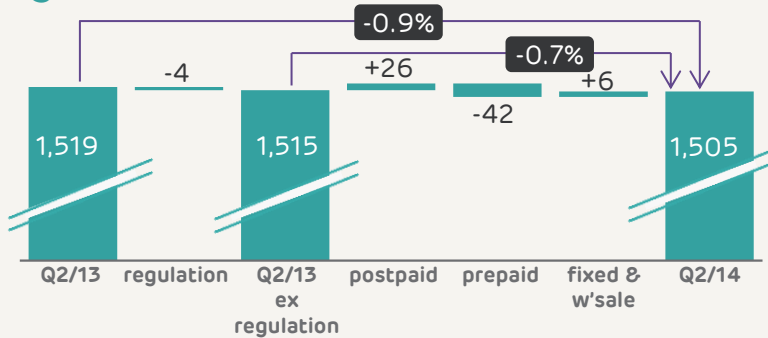
- Postpaid mobile net adds of 240k including M2M. MVNO base +4.1% yoy to 3.68m, with total EE connections now 30.8m (Q2 2013: 31.1m). Consumer/B2B postpaid churn improved to 1.1%.
- 60% (Q2 2013: 55%) of consumer/B2B base on postpaid plans, with six times higher ARPU than prepaid. Prepaid base reduced 202k, with revenue trend in line with industry shift towards postpaid.

Accelerating fixed line revenue growth and strong customer acquisition:

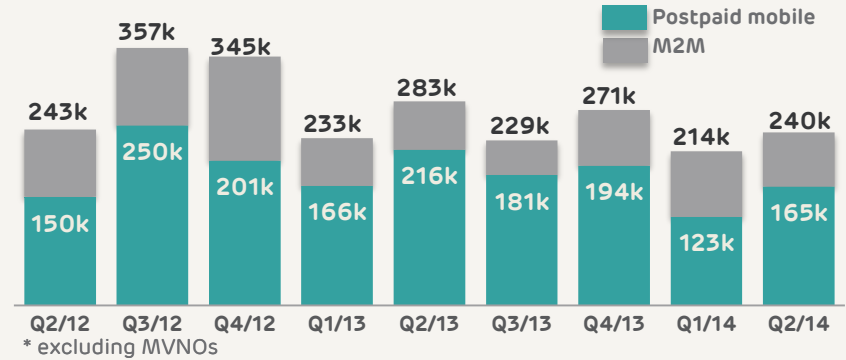
- Fixed revenue growth +19.6% yoy, 10th consecutive quarter of growth; fixed broadband net adds of 30k.

Customer loyalty: Strong acquisition and excellent retention of postpaid customers

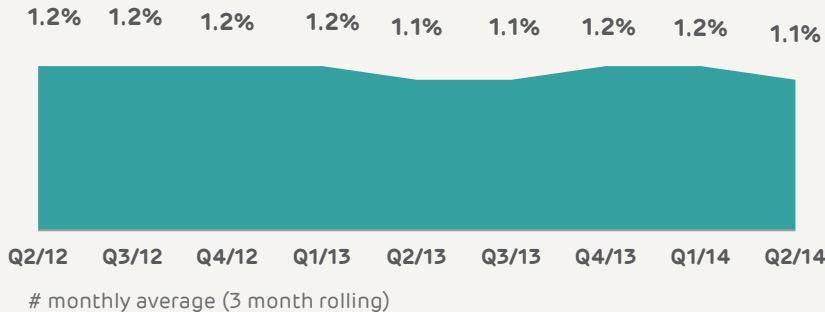
Q2 operating revenue -0.7% ex. regulation, £m



Continued postpaid growth*



Sustained low postpaid churn#



Insights

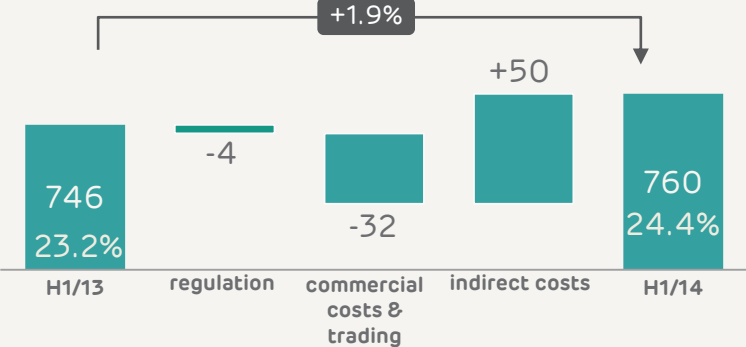
- Underlying operating revenue -0.7% yoy, with postpaid and wholesale growth offset by prepaid decline
- 4G base of 4.2m; addition of 1.3m 4G customers in Q2
- Strong customer retention; churn 1.1%, 13th quarter at 1.2% or below
- Q2 fixed-line revenue growth +19.6% yoy; 30k net adds

Initiatives

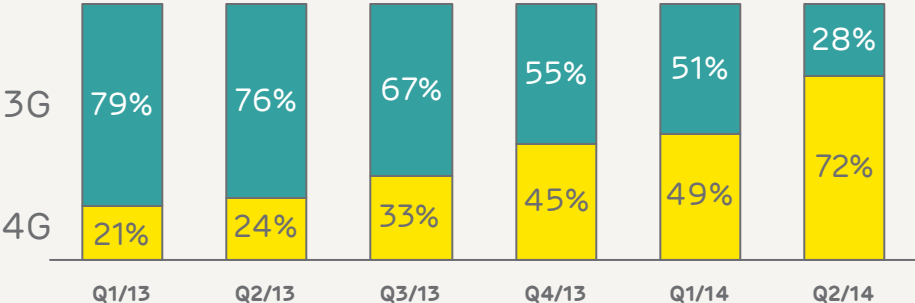
- Opened centres in Derby and Londonderry/Derry as part of plans to onshore 1,000 customer advisor roles to improve service
- Best value "No Brainer" ad campaign driving awareness
- Widened fixed broadband plans; attractive fixed-mobile offers

Operational excellence: Delivering further cost savings while building the UK's best network

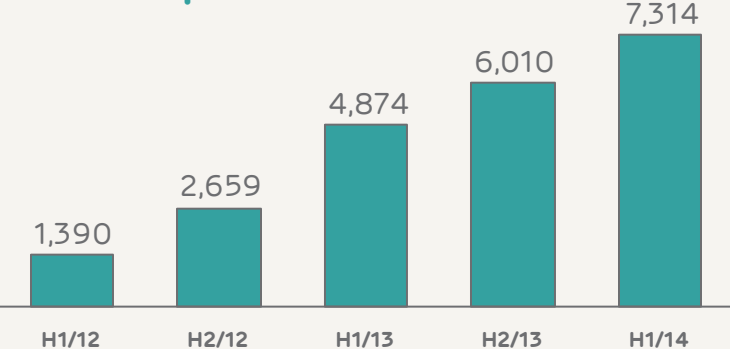
H1/14 margin improved to 24.4%, £'m



New customers, 4G share, Q2/14 inflection



Network site decommissioning process 90%+ complete



Insights

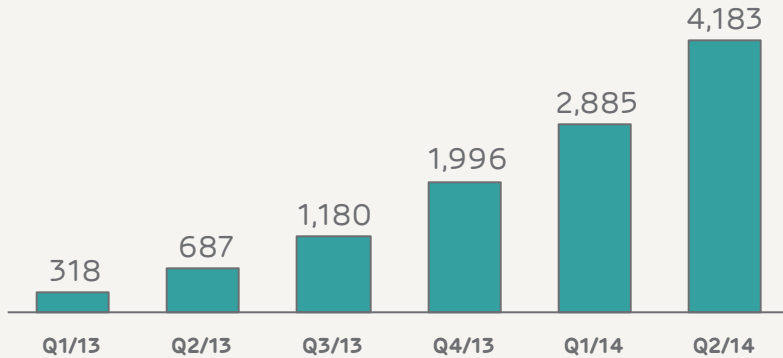
- H1/14 adj EBITDA up 1.9% yoy, with increased commercial costs offset by lower indirect costs
- Commercial costs higher due to increased customer retention acts

Initiatives

- 73% 4G pop. coverage; targeting world-leading dropped call rate; network optimisation reached 90%+ of redundant sites switched off
- Retail estate streamlined by 75 to 520 shops while covering same number of high streets; introduced new franchise stores
- Senior management roles down c. 15% yoy; and temporary contractors down 32% yoy

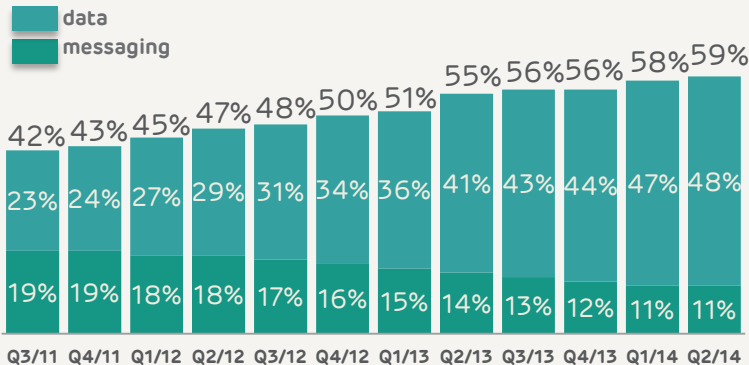
Platforms for growth: 4G supporting further data revenue growth

Strong 4G base growth, '000

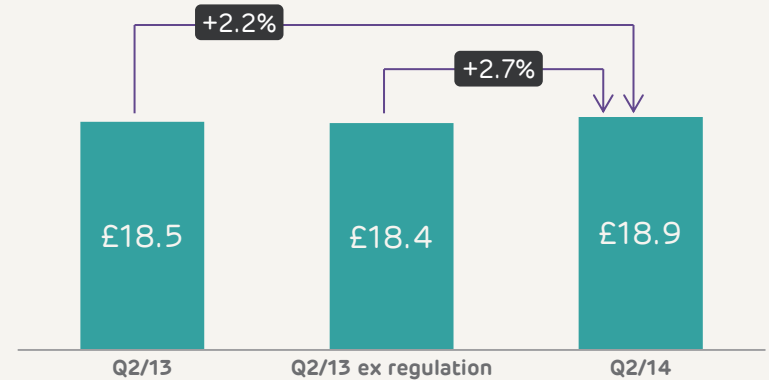


Continued data revenue growth

Non voice % ARPU



Mobile blended monthly ARPU growth



Insights

- Blended ARPU ex regulation +2.7% yoy, as postpaid base mix increases to 59.7% (Q2/13 55.3%), excluding M2M/MVNO
- 4G base growth drives non-voice revenues, with data revenues +4ppts yoy to 59% of ARPU
- M2M base up 19.1% yoy

Initiatives

- Introduced innovative EE-branded device range including smartphone, tablet, 4G WiFi and in-car WiFi
- Launched new 4GEE WiFi price plans
- Founding member of UK's Mobile Video Alliance, to enhance mobile video/TV experience