



London. 25 July 2014.

## EE Interim Results for 6 Months Ended 30 June 2014

***Adj. EBITDA margin improves with continued postpaid growth and cost savings; record 1.3m 4G customers added in Q2, the most ever by a European operator in a quarter***

### Highlights:

#### Strong take up of 4G mobile services, with accelerating B2B momentum:

- 4G customers double in the first half to 4.2m. 4G base up a record 1.3m or 45% quarter-on-quarter in Q2 alone. On track to exceed 6m by end of the year.
- In Q2, 72% of new postpaid customers selected 4G as price plans extended, including 88% of new B2B customers. 5,500+ corporates using 4GEE, including new account wins Deloitte and Essex Police.

#### Improved first half adj. EBITDA<sup>1</sup> margin:

- H1 adj. EBITDA<sup>1</sup> of £760m, a margin of 24.4%, up 1.2 ppts yoy (H1 2013: 23.2%), with growth in postpaid customers and further cost savings.
- Good progress lowering cost base by delivering merger synergies including network optimisation, retail consolidation and other operational efficiencies.

#### Steady underlying operating revenue performance:

- H1 operating revenue stable at 0.1% year-on-year (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.
- Mobile average revenue per user (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 up +7 ppts yoy to 48% (H1 2013: 41%) of ARPU.

#### Strong acquisition and excellent retention of postpaid customers:

- Q2 postpaid mobile net adds of 240k including machine-to-machine (M2M). Mobile Virtual Network Operator (MVNO) base +4.1% yoy to 3.68m, with total EE connections now 30.8m (Q2 2013: 31.1m).
- 60% (Q2 2013: 55%) of mobile customers (excluding M2M) on postpaid plans, with six times higher ARPU than prepaid. Prepaid base reduced 202k, with revenue trend in line with industry shift towards postpaid.
- Consumer/B2B postpaid churn improved to 1.1%, the 13th consecutive quarter at 1.2% or below.

#### Accelerating fixed line revenue growth and strong customer acquisition:

- Q2 fixed revenue growth up +19.6% yoy, the 10<sup>th</sup> consecutive quarter of growth.
- Q2 fixed broadband net adds of 30k, driven by attractive combined fixed/mobile promotions.

First half unless otherwise noted	Six months ended 30 June 2014	H1 yoy change (%)	Q2 yoy change (%)
Turnover	£3,114m	(3.0%)	(2.5%)
Operating revenue	£2,991m	(1.3%)	(0.9%)
Operating revenue change (excl. regulation)		0.1%	(0.7%)
Adj. EBITDA	£760m	1.9%	
Adj. EBITDA margin	24.4%	1.2ppts	
Q2 Postpaid Net Adds	240k		
Q2 Postpaid Churn	1.1%		0.0ppts

**Olaf Swantee, Chief Executive Officer of EE, commented:** "Today's results demonstrate that consumers and businesses are responding to our strategy to provide the UK's biggest, fastest and most reliable network. We are delivering on our goals to rapidly transition our pay monthly customer base to 4G, generate significant merger cost savings and improve our EBITDA margin performance."

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

## **Operating review**

In the first half, EE made good progress implementing our strategy of maintaining commercial leadership, delivering operational excellence, and creating long-term value through network leadership. Our focus on clear network differentiation, building an efficient business and postpaid customer growth is supporting our commercial momentum, delivering rapid take up of 4G services and improving EBITDA margin.

### **Our Customers: Successful acquisition and retention of postpaid customers**

Underlying operating revenue in the first half was stable at 0.1% yoy. Including the impact of regulatory cuts, first half operating revenue was 1.3% lower yoy. Q2 underlying operating revenue was 0.7% lower yoy. Including the impact of regulatory cuts, Q2 operating revenue was 0.9% lower yoy at £1,505m.

We had 240k net postpaid adds in the quarter including M2M. Our customer value mix further improved, with a net increase of 165k postpaid mobile customers excluding M2M in Q2. Postpaid customer retention improved to 1.1%, our 13<sup>th</sup> consecutive quarter at 1.2% or below. In Q2, our 4G base surged 45% over Q1 – and is up more than 500% yoy. Our 4G customer base reached 4.183m, and we are firmly on track to exceed 6 million 4G customers by the end of the year.

Our fixed business is delivering strong, consistent growth in revenue and customer additions. In Q2, we saw revenue up +19.6% yoy, the 10<sup>th</sup> consecutive quarter of growth, and 30k fixed broadband net adds.

### **Our Company: Delivering further cost savings while building the UK's best network**

Adj. EBITDA margin improved to 24.4%, an increase of 1.2 percentage points yoy. We have achieved a 6.7% yoy reduction in our indirect cost base in the first half. We continued our network optimisation programme, including beginning the consolidation of our backhaul networks. We are also progressing our retail consolidation and other operational integration programmes.

We further strengthened our network leadership position. We continued the rapid rollout of 4G services, bringing 4G services to 73% of the population in 229 towns and cities and 2,588 rural villages, and announced plans to extend our double speed 4G to a total of 40 cities by the end of 2014. We also announced plans to improve coverage, particularly in rural areas, introducing WiFi calling and trialling voice over 4G services this year, and rolling out 4G over 800 MHz next year in rural areas.

We continued to demonstrate clear network leadership, winning Best Consumer and Best Business Network at the Mobile Industry awards, and being named number one network for overall call, text and mobile data performance of any UK network by RootMetrics® in all 16 cities tested in 2014.

### **Our Future: Leveraging the data opportunity through continued 4G and data growth**

We saw further rapid growth in data revenues. Non voice revenues (data and messaging) grew to 59% of ARPU revenues (Q2 2013: 55%), with non-messaging data reaching 48% of ARPU (Q2 2013: 41%). We are seeing excellent demand for 4GEE Extra plans, with almost a third of new/renewing customers selecting our exclusive double speed 4G.

We are seeing good early success with our new range of innovative EE-branded devices designed to appeal to even broader market segments and customer needs. We launched, to positive reviews, high quality, affordable EE 4G devices, including the Kestrel smartphone, the Eagle tablet, the Osprey 4G WiFi hotspot, and the Buzzard 4G WiFi hotspot, designed specifically to provide 4G WiFi in cars. We also introduced new 4G WiFi price plans in support of the new device range.

### **Capital structure, dividend and events after balance sheet date**

Our Net Debt to EBITDA ratio as of 30 June 2014 was 1.47x (30 June 2013: 1.72x). We paid in the first half of 2014 a final 2013 dividend of £392m. The Board of Directors has recommended an interim 2014 dividend of £120m to be paid in September 2014. As announced in early July, the UK Supreme Court issued a ruling on a Ladder Pricing dispute between BT and mobile operators, and further procedural steps will determine the financial impact in due course.

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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. EE has approximately 15,000 employees and 520 retail stores, and serves more than 30 million customers across its mobile, fixed and wholesale businesses.

EE runs the UK's biggest, fastest and most reliable mobile network, pioneering the UK's first superfast 4G mobile service in October 2012. EE's 4G coverage today reaches more than 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.

In the last few years, EE has received extensive independent recognition including being ranked the UK's best overall network by RootMetrics®, Best Consumer Network and Best Business Network at the 2014 Mobile Industry Awards, Best Network at the 2014 Mobile News Awards, 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 Interim Results for 6 Months Ended 30 June 2014

		Q2/13	Q2/14	Movement
Total network connections (end of period)	('000)	31,050	30,804	(0.8%)
Postpay mobile	('000)	13,976	14,638	4.7%
Postpay mobile base percentage (ex. M2M/MVNO)	(%)	55.3%	59.7%	4.4ppts
Prepay mobile	('000)	11,312	9,901	(12.5%)
Machine-to-Machine	('000)	1,520	1,810	19.1%
Fixed broadband	('000)	704	775	10.1%
Fixed narrowband	('000)	5	2	(60%)
MVNO <sup>1</sup>	('000)	3,533	3,678	4.1%
Net customer additions	('000)	(390)	86	
Postpay mobile inc. M2M	('000)	283	240	
-Postpay mobile	('000)	216	165	
-Machine-to-Machine	('000)	67	75	
Prepay mobile	('000)	(671)	(202)	
Fixed broadband	('000)	10	30	
Fixed narrowband	('000)	0	(2)	
MVNO <sup>1</sup>	('000)	(12)	20	
Average monthly churn mobile	(%)	2.7%	1.9%	(0.8ppts)
Postpay mobile	(%)	1.1%	1.1%	0.0ppts

<sup>1</sup> MVNO base and net adds reported a quarter in arrears

		Q2/13	Q2/14	H1/13	H1/14	Movement	
						Q2 yoy	H1 yoy
Turnover	(£'m)	1,606	1,566	3,211	3,114	(2.5%)	(3.0%)
Turnover underlying growth yoy	(%)					(2.2%)	(1.7%)
Operating revenue <sup>2</sup>	(£'m)	1,519	1,505	3,031	2,991	(0.9%)	(1.3%)
Operating revenue underlying growth yoy	(%)					(0.7%)	0.1%
Mobile service revenue	(£'m)	1,421	1,406	2,843	2,793	(1.1%)	(1.8%)
Mobile service revenue underlying growth yoy	(%)					(0.8%)	(0.3%)
EBITDA	(£'m)			607	657		8.2%
Adjusted EBITDA	(£'m)			746	760		1.9%
Restructuring costs included in EBITDA	(£'m)			46	26		(43%)
EBITDA margin (turnover)	(%)			18.9%	21.1%		2.2ppts
Adj EBITDA margin (turnover)	(%)			23.2%	24.4%		1.2ppts
Capital expenditure	(£'m)			317	268		(15.5%)

<sup>2</sup> Operating revenue is Mobile service revenue plus revenue from fixed and wholesale business areas

Mobile (ex. M2M/MVNO)		Q2/13	Q2/14	Movement
Subscriber Acquisition Cost (SAC) per gross addition	(£)	56	68	21.4%
-Postpay	(£)	147	155	5.4%
-Prepay	(£)	5	6	20.0%
Subscriber Retention Cost (SRC) per gross addition	(£)	168	193	14.9%
Average Revenue Per User (ARPU) (monthly average)	(£)	18.5	18.9	2.2%
ARPU underlying growth yoy	(%)			2.7%
- Postpay	(£)	29.7	28.9	(2.7%)
- Prepay	(£)	5.0	4.3	(14.0%)
Voice ARPU (monthly average)	(£)	8.4	7.8	(7.1%)
Non-voice % of ARPU	(%)	54.6	58.9	4.3ppts
Minutes Of Use per customer per month	(min)	201	200	(0.5%)
- Postpay	(min)	335	311	(7.2%)