

Company number: 2382161

**EE Limited**

**(Formerly Everything Everywhere Limited)**

**Annual Report**

**Group and Company Financial Statements**

**Year ended 31 December 2013**

# EE Limited

(Formerly Everything Everywhere Limited)

## Contents

Directors and advisers.....	3
Strategic Report.....	4
Directors' Report.....	9
Directors' statement of responsibilities.....	11
Independent auditor's report to the members of EE Limited.....	12
Group income statement.....	14
Statements of comprehensive income.....	15
Statements of financial position.....	16
Group statement of changes in equity.....	18
Company statement of changes in equity.....	19
Statements of cash flows.....	20
Notes to the Financial Statements.....	22

# **EE Limited**

(Formerly Everything Everywhere Limited)

## **Directors and advisers**

### **Directors**

Olaf Swantee  
Neal Milsom  
Timotheus Höttges resigned - 1 February 2014  
Gervais Pellissier  
Benoit Scheen  
Claudia Nemat resigned - 1 February 2014  
Thomas Dannenfeldt appointed - 1 February 2014  
Michail Tsamaz appointed - 1 February 2014

### **Secretary**

James Blendis

### **Registered office**

Trident Place  
Mosquito Way  
Hatfield  
Hertfordshire  
AL10 9BW

### **Auditors**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

# EE Limited

(Formerly Everything Everywhere Limited)

## Strategic Report

### Introduction

EE Limited (“EE” or “the Group”) (formerly known as Everything Everywhere Limited) is the UK’s largest mobile communications provider with 27.1 million customers (year ended 31 December 2012: 28.2 million) and mobile subscriber estimated market share of 33% (31 December 2012 33%). The Group, which operates exclusively in the UK, runs three of the country’s most famous brands – EE, Orange and T-Mobile. It offers mobile services (consisting of voice, messaging and data services) and fixed voice and broadband services to both retail and business customers through multiple telecommunications technologies. It was the first UK mobile network operator to launch a 4G network, introducing superfast consumer and business tariffs on the EE brand. The EE network provides customers with the widest and fastest 4G coverage in the UK.

The Group was formed on 1 April 2010 when Orange S.A. (“Orange”), formerly France Telecom S.A. and Deutsche Telekom A.G. (“DT”) combined their respective UK mobile businesses as a joint venture.

### Strategy

The Group’s objectives are to maximise value for its shareholders and customers, while at the same time contributing to the social and economic well-being of the UK. In pursuit of these objectives, the Group’s strategy is focussed on three core areas – driving customer loyalty, ensuring operational excellence and creating the platform for secure long term growth. This is supported by strong cash flows and a conservative financing structure.

The Group aims to be the number one for customer loyalty in the UK. It looks to deliver exceptional customer service through its retail networks, customer operations and on-line channels. The Group’s leading network infrastructure allows it to deliver superior coverage and capacity, positively differentiating its network experience in the wider mobile marketplace. The Group focuses relentlessly on its customers’ experience, driving their satisfaction and loyalty.

The Group continually invests in new capabilities to lead in the industry’s development, meet evolving customer demand and provide the platform from which to drive and optimise future growth opportunities.

### Operating Review

During 2013, EE delivered on its strategy to transform the Group into a clear market leader. EE provided customers with the best network with the widest 4G coverage, an improved customer interface with a strong brand and new retail estate. EE started to effectively monetise 4G with innovative propositions including the UK’s first Shared plans, speed-tiered plans and prepaid 4G plans. This enabled EE to deliver strong results, including meeting cost saving targets a year earlier than planned and achieving significantly improved adjusted EBITDA margin and stable underlying service revenue performance.

#### Customers: Adding and retaining postpaid customers

Over the year, EE added 756,000 net postpaid customers (2012: 752,000), increasing the postpaid proportion of the customer base (excluding machine to machine) to 58%. The prepaid customer base reduced by 17% in line with the industry shift towards postpaid. The 4G base reached 2 million, with an increase of 816,000 customers in the 4<sup>th</sup> quarter, supported by price range extension and 4G Shared and prepaid plans. Business adoption of 4G remains strong with 4,100+ corporates on 4G. EE has 29 MVNO partners, including re-signing Virgin Mobile and signing ASDA Mobile. The machine-to-machine business grew rapidly in the year, with the base up 18.6% year on year to 1.64 million connections.

# EE Limited

(Formerly Everything Everywhere Limited)

## Strategic Report (continued)

### Customers: Adding and retaining postpaid customers (continued)

EE will continue to leverage the network capacity to maximise connections on the network. EE 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 business, with a greater emphasis on cross-selling across mobile and fixed products.

### Company: Optimising operations ahead of plan

EE made continued progress on the network, retail and supplier optimisation programmes. The Group has decommissioned 6,010 redundant network sites since the inception of the programme, reduced its supplier base, integrated its warehouses and streamlined the retail estate by 59 stores in 2013 to approximately 600 outlets. Full year indirect costs were reduced 3.1% year on year. In 2014, EE will continue the cost savings programmes, through network optimisation and a net reduction of approximately 25 retail stores.

### Outlook: Effectively monetising the data opportunity

EE has made good progress in strengthening and monetising the Group's network leadership. The Group secured the UK's best spectrum portfolio for mobile data services, with an industry-leading 36% share. Leveraging this advantage and the £1.5 billion investment focussing on new 2G/4G equipment and backhaul, EE are the only UK network providing double speed 4G and greater capacity across 20 UK cities. By January 2014, EE covered 160 towns and cities and 70% of the population with 4G. Independent benchmarking by RootMetrics ranked EE number one for overall performance of any UK network in all its 32 tests in 2013.

EE will look to monetise both the quality and speed of its mobile internet experience and the quantity of mobile data, with standard 4G and 4G Extra price plans, each with tiered data bundles. EE will seek to continue to successfully upgrade existing customers to 4G.

## Corporate Responsibility

With EE's vision to deliver the best network and the best service to ensure our customers trust us with their digital lives, stakeholder trust is at the core of our corporate responsibility plan. We have a comprehensive issue management system that identifies and addresses key business sustainability risk areas such as child safety, supply chain and environmental impact. We invest in our communities, working with the charity Go ON UK to help improve the digital skills of 1 million people through Techy Tea Parties, offering a range of print and online resources and skills-based customer service. We are addressing youth unemployment by bringing nearly 500 apprentices into our business in the last year, with the programme receiving an award in the Deputy Prime Minister's Opening Doors awards.

## Results and financial position

The key performance indicators for the Group are revenue, EBITDA and adjusted EBITDA. Group revenue for the year was £6.5 billion (year ended 31 December 2012: £6.7 billion), a 2.6% decline, with the impact of regulatory rate cuts partially offset by growth in the post paid customer base. Underlying service revenue was stable at 0.0% year on year. Adjusted EBITDA, which excludes restructuring costs, brand and management fees, was £1,574 million (year ended 31 December 2012: £1,429 million).

The loss after tax for the year ended 31 December 2013 was £76 million (2012: loss of £195 million) and has been deducted from reserves. Detailed results for the year are shown in the income statement on page 14.

Dividends declared and paid during the year totalled £458 million (2012: £734 million). This was equivalent to £20.77 per share (2012: £33.29 per share).

# EE Limited

(Formerly Everything Everywhere Limited)

## Strategic Report (continued)

### Results and financial position (continued)

The net assets of the Group decreased from £10,317 million at 31 December 2012 to £9,733 million at 31 December 2013, due to the loss for the year, actuarial loss on pension scheme revaluation and dividends paid.

The Company had net assets as at 31 December 2013 of £3,671 million (2012: £4,004 million).

### Capital Structure

In August 2013, Standard and Poors raised EE's long and short-term corporate credit ratings to 'BBB/A-2' with a stable outlook from 'BBB-/A-3', recognising EE's improving financial performance. At the end of the year, the leverage ratio was 1.3x Net Debt to EBITDA, consistent with the financial policy of maintaining, in the medium term, a leverage ratio of below 1.75-2.00x.

Long-term funding for the Group is provided by Euro and Sterling denominated bonds issued by EE Finance plc under its Euro Medium Term Note programme, together with a sterling denominated bank facility provided by a consortium of Banks and a European Investment Bank Loan. The Group is exposed to Euro denominated interest rate payments on its Euro bonds; these interest obligations have been swapped to Sterling by entering into cross currency interest rate swaps as detailed further in Note 33 to the accounts.

The main sources of liquidity include cash generated from operations, a syndicated loan facility provided by the above mentioned consortium of banks, and a working capital facility provided jointly by the Group's shareholders.

On 4 December 2013, EE signed an agreement with its existing group of banks for a two year extension of the maturity of its term loan through to November 2016.

### Risks and uncertainties

The Group has an active risk management process in place, which is designed to identify, manage and mitigate business risks. Regular reporting of these risks, and the monitoring of actions and controls, is conducted on behalf of the Directors by the relevant business function.

The Group's business is directly impacted by the external environment, and in particular the regulatory environment and competitive marketplace in which it operates.

### Level of competitive activity

The Group operates exclusively in the UK. The mobile communications market in the UK is highly competitive. Pressures are increasing as existing operators and other service providers seek to strengthen their market position. Close monitoring of customer trends and competitor activity enables the Group to respond by developing innovative customer propositions and retention campaigns.

### Spectrum factors

The Group monitors any developments from the European Commission, the UK Government and the independent regulator and competition authority for the UK communications industries ("Ofcom") in relation to the allocation of mobile spectrum in the UK.

Ofcom is currently in the process of revising annual licence fees for 900MHz and 1800MHz. EE will be affected by any revision due to our holding of 1800MHz. Ofcom published a proposal for public consultation in October 2013 which would see the Group's annual spectrum licence fees for 1800MHz increase significantly. EE has actively participated in the consultation process. It is possible that the revised level of fees may be introduced in the first half of 2014 but the timing is currently uncertain.

# EE Limited

(Formerly Everything Everywhere Limited)

## Strategic Report (continued)

### Regulatory factors

The Group must comply with an extensive range of requirements that govern and regulate the licensing, construction and operation of its telecommunications networks and the provision of services in the UK. Decisions by regulators can affect the Group's business and operations and these effects are often adverse. The most important changes in regulation are outlined below.

The European Commission adopted, in June 2012, a new Regulation amending the existing international roaming regulations with significantly lower price ceilings, an inclusion of a retail data tariff ceiling and structural measures to foster increased competition. This expansion of the existing regulation may have a negative effect on the Group's international roaming revenues. New regulation at EU level on roaming charges, currently in draft form, may have an additional negative effect on the Group's international roaming revenues. Related to this, in November 2013, the UK Government announced a "Telecommunications Consumer Action Plan" which aims to eliminate roaming charges in the EU.

With regard to call termination charges, in common with other UK operators, the Group has been found by Ofcom to have a dominant position, in the wholesale market for the termination of calls to UK mobile numbers allocated for the Group's use by Ofcom. As such, Ofcom has imposed various conditions, including a ceiling on the amount the Group is able to charge other operators when calls from their customers terminate on its networks. Such regulated charges have been reduced over a number of years, as Ofcom has sought to ensure that such charges are cost related. As a result of appeals against Ofcom's decision, there has been a further reduction in such charges. The rate reductions have forced the Group to implement changes to the way in which mobile services are marketed, which affects its pre-pay customers disproportionately and has had adverse effects on EBITDA.

Ofcom has also initiated the procedure for reviewing the termination rate charge controls which apply in future (from 1 April 2015 to 31 March 2018). It is currently considered unlikely that the methodology used to assess the relevant costs will change, but taking account of market and technological developments since the last review may lead to updated charge ceilings and a new glide path. Ofcom is expected to consult on its new assessment in May 2014.

In December 2013, Ofcom published its decision on new arrangements for the way calls to non-geographic numbers (i.e. numbers starting with 080, 084, 087, 09 and 118) are charged. The combined impact of these proposals may lead to a reduction in the Group's revenue and EBITDA for such calls from June 2015, when the reforms come into effect.

The UK has also recently implemented the European Consumer Rights Directive. One of the relevant regulations requires that, as from June 2014, UK traders who offer consumers telephone numbers to contact them on queries and complaints after they have purchased goods or services must offer the option of calling on a "basic rate" number. The guidelines issued by the Government in relation to this mean there will be some migration away from the use of 084 and 087 numbers for such services, which is likely to lead to a reduction in the Group's revenue from such calls.

EE works with the relevant regulatory bodies to represent its interests and those of its customers.

### Brand risk

It is critical for the Group to maintain and develop its three brands so as to maintain effectively its customer base (both retail and business to business) and to secure or grow its revenue. Since the Group operates in a highly competitive market where brand recognition is a key driver of customer's selection of their preferred mobile telecommunications provider, maintaining and enhancing the Group's brands directly affects its ability to maintain market position, revenues and profitability. The Group's main competitors have established successful brands and are continuing to take steps to increase their brand recognition and, as such, the Group continues to maintain and enhance the recognition and value of its brands in the highly competitive market in which it operates.

# EE Limited

(Formerly Everything Everywhere Limited)

## Strategic Report (continued)

### Liquidity risk

The continued volatility of worldwide financial markets may make it more difficult for the Group to raise capital externally in the future if the need arises.

Further details of the Group's facilities and long-term funding arrangements are detailed in note 25.

### Interest rate risk

The Group is exposed to interest rate risk arising from borrowing on a variable interest rate basis. The risk is mitigated by a treasury policy of setting a target fixed to floating ratio and by arranging interest rate swap contracts with its banks.

### Other financial risks

Further information on financial risk management including the management of foreign currency related risk is provided in note 33.

The Strategic report was approved by the Board of Directors on 19 February 2014 and signed on its behalf by



Olaf Swantee  
Director



# EE Limited

(Formerly Everything Everywhere Limited)

## Directors' Report

The Directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2013.

### Directors

The Directors, who held office during the year, and up to the approval of this report, are set out on page 3.

There are no Directors' interests requiring disclosure under the Companies Act 2006.

### Research and development

The Group works actively with its suppliers in developing the standards for future mobile communication services and equipment.

### Going concern

The Group's business activities, the factors likely to affect its future development and position, and the principal risks and uncertainties faced by the Group, are set out in the Strategic Report. The Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern.

The Group is expected to continue to generate positive operating cash flows for the foreseeable future and has a number of financing arrangements in place that it is reliant upon to remain a going concern.

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 Group and Company annual financial statements.

### Events since the balance sheet date

There are no events noted.

### Financial risk management objectives

See Note 33 for financial risk management, objectives and policies.

### Employee involvement

EE ensures employees under its direction and control are fully informed and involved in the business. Various communication methods were utilised during the year, including, regular face to face briefings and email updates from senior managers, an intranet site and regular meetings held between local management and their teams. Employee feedback and opinion is actively canvassed in such meetings and also via employee opinion surveys. Structured engagement plans are developed after each survey as a means of continual enhancement of the process of informing, involving and engaging employees in the future. In addition, engagement champions are appointed for each functional area who are accountable for ensuring engagement plans remain on track and also ensuring additional feedback is given and opportunities taken between the main surveys. These are published for all employees to see and sharing of best practice is encouraged via the Group's Pulse intranet site.

In March 2013, EE was listed as one of the Top 25 big companies in the "Sunday Times Best Companies" survey.

During the year, comprehensive consultative arrangements were operated throughout the organisation. These comprised local employee consultation forums and an overarching national employee consultation forum. Each body is characterised by elected employee representatives regularly meeting with senior managers to discuss items of employee interest and issues arising from business proposals and changes.

# EE Limited

(Formerly Everything Everywhere Limited)

## Directors' Report (continued)

### Equal opportunities and disabled employees

EE strives to promote inclusivity and does not discriminate between employees or potential employees on grounds of race, ethnic or national origin, colour, nationality, gender, gender reassignment, disability, marriage and civil partnership, sexual orientation, pregnancy and maternity, political belief, age, religion or belief.

EE is committed to valuing the diversity of its people, and to improve and measure its performance in this respect it has established collaborative working partnerships with a number of membership organisations including the Employers Network for Equality and Inclusion, Business Disability Forum, Business in the Community and Stonewall.

EE makes endeavours to ensure that known disabled employees, and those employees who become disabled during their employment, are given appropriate levels of support. Where practical, reasonable adjustments will be considered to ensure disabled employees can continue in employment, maximise their potential and have equality of opportunity throughout their career with the Group.

### Disclosure of information to the auditor

In the case of each person who was a Director at the date this report as approved under S418 of the Companies Act 2006, the following applies:

- so far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware; and
- they have taken all steps that they ought to have taken as a Director in order to make them aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

### Appointment of the auditor

In accordance with S487(2) of the Companies Act 2006 the Group allows the deemed reappointment of Ernst & Young LLP as auditor.

By order of the Board



Neal Milsom

Director

19 February 2014

# EE Limited

(Formerly Everything Everywhere Limited)

## Directors' statement of responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the Directors must not approve the Group and Company financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group and Company for that period. In preparing the Group and Company financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company's financial position and financial performance;
- state that the Group and Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the Group and Company financial statements on the going concern basis unless it is inappropriate to presume that the Group or Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company transactions, and disclose with reasonable accuracy at any time the financial position of the Group and Company, and enable them to ensure that the Group and Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# EE Limited

(Formerly Everything Everywhere Limited)

## Independent auditor's report to the members of EE Limited

We have audited the financial statements of EE Limited for the year ended 31 December 2013 which comprise the Group income statement, the Statements of comprehensive income, the Statements of financial position, the Group statement of changes in equity, the Company statement of changes in equity, the Statements of cash flows and the related Notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Statement of Responsibilities set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# EE Limited

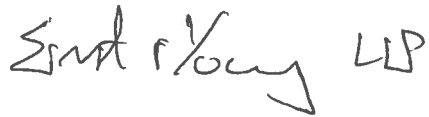
(Formerly Everything Everywhere Limited)

## Independent auditor's report to the members of EE Limited (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Handwritten signature of Philip Young in black ink, followed by the text 'Ernst & Young LLP'.

Philip Young (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

19 February 2014

# EE Limited

(Formerly Everything Everywhere Limited)

## Group income statement For the year ended 31 December 2013

	Notes	2013 £m	2012 Restated £m
<b>Revenue</b>	7	<b>6,482</b>	<b>6,657</b>
External purchases	8	(4,309)	(4,601)
Other operating income	10	50	44
Other operating expense	10	(370)	(429)
Staff costs	11	(461)	(460)
Amortisation and depreciation	17, 18	(1,307)	(1,270)
Restructuring expenses	13	(79)	(106)
<b>Group operating profit/(loss)</b>		<b>6</b>	<b>(165)</b>
Finance income	14	2	1
Finance expense	15	(102)	(87)
Finance costs net		(100)	(86)
Share of (loss) of associates and joint ventures	19	(7)	-
<b>Loss before tax</b>		<b>(101)</b>	<b>(251)</b>
Income tax	16	25	56
<b>Loss for the year attributable to the equity holders of the parent</b>		<b>(76)</b>	<b>(195)</b>

# EE Limited

(Formerly Everything Everywhere Limited)

## Statements of comprehensive income For the year ended 31 December 2013

	Notes	Group		Company	
		2013 £m	2012 Restated £m	2013 £m	2012 Restated £m
<b>(Loss)/profit for the year attributable to the equity holders of the parent</b>		<b>(76)</b>	<b>(195)</b>	<b>175</b>	<b>50</b>
<b>Items that may be subsequently reclassified to income statement</b>					
Cash flow hedges					
- Gain recycled through Income Statement in the year	26	(37)	(15)	(37)	(15)
- Fair value gain arising in the year	26	41	36	41	36
Deferred tax relating to cash flow hedges	16	-	(5)	-	(5)
		4	16	4	16
<b>Items which will not be reclassified to income statement</b>					
Actuarial loss on defined benefit pension scheme	28	(67)	(28)	(67)	(28)
Deferred tax relating to defined benefit pension scheme	16	13	7	13	7
		(54)	(21)	(54)	(21)
<b>Other comprehensive loss for the year</b>		<b>(50)</b>	<b>(5)</b>	<b>(50)</b>	<b>(5)</b>
<b>Total comprehensive (loss)/profit for the year attributable to the equity holders of the parent</b>		<b>(126)</b>	<b>(200)</b>	<b>125</b>	<b>45</b>

# EE Limited

(Formerly Everything Everywhere Limited)

## Statements of financial position

As at 31 December 2013

Company number: 2382161

		2013	Group 2012	2011	2013	Company 2012	2011
	Notes	£m	Restated £m	Restated £m	£m	Restated £m	Restated £m
<b>Non-current assets</b>							
Intangible assets	17	10,394	10,496	11,249	4,083	3,811	4,180
Property, plant and equipment	18	2,313	2,316	2,184	2,313	2,316	2,184
Associates and joint ventures	19	6	5	1	3	2	1
Other financial assets	22	-	1	1	-	1	1
Deferred tax asset	16	173	167	113	425	542	615
Derivative financial instruments	26	49	24	-	49	24	-
Other non-current assets	21	22	25	48	22	25	48
<b>Total non-current assets</b>		<b>12,957</b>	<b>13,034</b>	<b>13,596</b>	<b>6,895</b>	<b>6,721</b>	<b>7,029</b>
<b>Current assets</b>							
Inventories	20	85	125	130	85	125	130
Trade and other receivables	21	1,147	1,170	1,262	1,147	1,170	1,271
Derivative financial instruments	26	-	8	-	-	8	-
Cash and cash equivalents	23	423	846	290	423	846	290
<b>Total current assets</b>		<b>1,655</b>	<b>2,149</b>	<b>1,682</b>	<b>1,655</b>	<b>2,149</b>	<b>1,691</b>
<b>Total assets</b>		<b>14,612</b>	<b>15,183</b>	<b>15,278</b>	<b>8,550</b>	<b>8,870</b>	<b>8,720</b>
<b>Current liabilities</b>							
Trade and other payables	24	(2,152)	(2,150)	(2,123)	(2,152)	(2,150)	(2,123)
Provisions	27	(164)	(160)	(192)	(164)	(160)	(192)
Interest bearing loans and borrowings	25	(41)	(8)	(374)	(2,180)	(2,130)	(1,244)
Derivative financial instruments	26	(11)	(4)	(18)	(11)	(4)	(18)
<b>Total current liabilities</b>		<b>(2,368)</b>	<b>(2,322)</b>	<b>(2,707)</b>	<b>(4,507)</b>	<b>(4,444)</b>	<b>(3,577)</b>
<b>Non-current liabilities</b>							
Derivative financial instruments	26	-	(7)	-	-	(7)	-
Provisions	27	(228)	(335)	(363)	(228)	(335)	(363)
Interest bearing loans and borrowings	25	(2,139)	(2,122)	(870)	-	-	-
Pension liability	28	(143)	(77)	(52)	(143)	(77)	(52)
Other non-current liabilities	24	(1)	(3)	(35)	(1)	(3)	(35)
<b>Total non-current liabilities</b>		<b>(2,511)</b>	<b>(2,544)</b>	<b>(1,320)</b>	<b>(372)</b>	<b>(422)</b>	<b>(450)</b>
<b>Total liabilities</b>		<b>(4,879)</b>	<b>(4,866)</b>	<b>(4,027)</b>	<b>(4,879)</b>	<b>(4,866)</b>	<b>(4,027)</b>
<b>Total net assets</b>		<b>9,733</b>	<b>10,317</b>	<b>11,251</b>	<b>3,671</b>	<b>4,004</b>	<b>4,693</b>



# EE Limited

(Formerly Everything Everywhere Limited)

## Statements of financial position (continued)

As at 31 December 2013

	Notes	2013 £m	Group 2012 Restated £m	2011 Restated £m	2013 £m	Company 2012 Restated £m	2011 Restated £m
<b>Capital and reserves</b>							
Share capital	29	22	22	22	22	22	22
Share premium account		1,638	1,638	1,638	1,638	1,638	1,638
Capital contribution reserve		196	196	196	196	196	196
Cash flow hedge reserve		6	2	(14)	6	2	(14)
Retained earnings		(3,192)	(2,604)	(1,654)	1,809	2,146	2,851
New basis reserve		11,063	11,063	11,063	-	-	-
<b>Total equity</b>		<b>9,733</b>	<b>10,317</b>	<b>11,251</b>	<b>3,671</b>	<b>4,004</b>	<b>4,693</b>

The financial statements were approved by the board of Directors on 19 February 2014 and were signed on its behalf by



Neal Milsom  
Director

# EE Limited

(Formerly Everything Everywhere Limited)

## Group statement of changes in equity

For the year ended 31 December 2013

	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
<b>At 31 December 2011</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>11,063</b>	<b>(1,654)</b>	<b>(14)</b>	<b>11,251</b>
Loss for the financial year	-	-	-	-	(195)	-	(195)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(28)	-	(28)
Deferred tax relating to defined benefit pension scheme	-	-	-	-	7	-	7
<b>Cash flow hedges</b>							
Losses recycled through the profit or loss account	-	-	-	-	-	(15)	(15)
Fair value gain arising in the year	-	-	-	-	-	36	36
Deferred tax relating to cash flow hedges	-	-	-	-	-	(5)	(5)
<b>Other comprehensive income &amp; expense</b>							
Dividends declared and paid	-	-	-	-	(734)	-	(734)
<b>At 31 December 2012</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>11,063</b>	<b>(2,604)</b>	<b>2</b>	<b>10,317</b>
Loss for the financial year	-	-	-	-	(76)	-	(76)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(67)	-	(67)
Deferred tax relating to defined benefit pension scheme	-	-	-	-	13	-	13
<b>Cash flow hedges</b>							
Losses recycled through the profit or loss account	-	-	-	-	-	(37)	(37)
Fair value gain arising in the year	-	-	-	-	-	41	41
<b>Other comprehensive income &amp; expense</b>							
Dividends declared and paid	-	-	-	-	(458)	-	(458)
<b>At 31 December 2013</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>11,063</b>	<b>(3,192)</b>	<b>6</b>	<b>9,733</b>

# EE Limited

(Formerly Everything Everywhere Limited)

## Company statement of changes in equity

For the year ended 31 December 2013

	Share capital	Share premium account	Capital contribution reserve	Retained earnings	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m
<b>At 31 December 2011</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>2,851</b>	<b>(14)</b>	<b>4,693</b>
Profit for the financial year	-	-	-	50	-	50
Actuarial loss on defined benefit pension scheme	-	-	-	(28)	-	(28)
Deferred tax relating to defined benefit pension scheme	-	-	-	7	-	7
<b>Cash flow hedges</b>						
Losses recycled through the profit or loss account	-	-	-	-	(15)	(15)
Fair value gain arising in the year	-	-	-	-	36	36
Deferred tax relating to cash flow hedges	-	-	-	-	(5)	(5)
<b>Other comprehensive income &amp; expense</b>						
Dividends declared and paid	-	-	-	(734)	-	(734)
<b>At 31 December 2012</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>2,146</b>	<b>2</b>	<b>4,004</b>
Profit for the financial year	-	-	-	175	-	175
Actuarial loss on defined benefit pension scheme	-	-	-	(67)	-	(67)
Deferred tax relating to defined benefit pension scheme	-	-	-	13	-	13
<b>Cash flow hedges</b>						
Losses recycled through the profit or loss account	-	-	-	-	(37)	(37)
Fair value gain arising in the year	-	-	-	-	41	41
<b>Other comprehensive income &amp; expense</b>						
Dividends declared and paid	-	-	-	(458)	-	(458)
<b>At 31 December 2013</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>1,809</b>	<b>6</b>	<b>3,671</b>

# EE Limited

(Formerly Everything Everywhere Limited)

## Statements of cash flows

### For the year ended 31 December 2013

	Notes	Group		Company	
		2013 £m	2012 Restated £m	2013 £m	2012 Restated £m
<b>Operating activities</b>					
<i>(Loss)/profit for the year</i>		(76)	(195)	175	50
<i>Adjustments to reconcile the loss for the year to cash generated from operations</i>					
Depreciation and amortisation	17, 18	1,307	1,270	934	886
Change in other provisions (excluding discount unwind)	27	(116)	(77)	(116)	(77)
Difference between pension contributions and amounts recognised in the income statement		(2)	(7)	(2)	(7)
Income tax	16	(25)	(56)	97	83
Net finance expense	14, 15	100	86	100	86
Share of loss of associates and joint ventures	19	7	-	-	-
Write-down of associates and joint ventures	19	-	-	7	-
Loss on disposal of non-current assets	17-18	5	-	5	-
<i>Changes in working capital requirements</i>					
Decrease in inventories	20	40	5	40	5
Decrease in trade and other receivables	21	23	84	23	84
Increase/(decrease) in trade and other payables	24	-	(48)	-	(48)
Decrease in other long-term assets	21	3	23	3	23
Interest income received		1	-	1	-
Foreign exchange (paid)/ received		1	(3)	1	(3)
Interest ( paid) and interest rates effects on derivatives		(83)	(29)	(83)	(29)
Income tax (paid)/received		16	(2)	16	(2)
<b>Net cash provided by operating activities</b>		<b>1,201</b>	<b>1,051</b>	<b>1,201</b>	<b>1,051</b>
<b>Investing activities</b>					
Purchases of property, plant and equipment and intangible assets	17-18	(1,207)	(626)	(1,207)	(626)
Investment in joint arrangements	19	(8)	(3)	(8)	(3)
<b>Net cash used in investing activities</b>		<b>(1,215)</b>	<b>(629)</b>	<b>(1,215)</b>	<b>(629)</b>

# EE Limited

(Formerly Everything Everywhere Limited)

## Statements of cash flows (continued)

For the year ended 31 December 2013

		Group		Company	
	Notes	2013 £m	2012 £m	2013 £m	2012 £m
<b>Financing activities</b>					
<i>Proceeds from new borrowings</i>					
Non-current borrowings	25	17	1,686	17	-
Transaction costs paid		-	(15)	-	(15)
Cash collateral received	25	32	8	32	8
 <i>Redemptions and repayments</i>					
(Decrease) in long term borrowings		-	(437)	-	(437)
(Decrease)/increase in short term borrowings		-	(374)	-	1,312
Dividends paid	30	(458)	(734)	(458)	(734)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net cash used in financing activities</b>		<b>(409)</b>	<b>134</b>	<b>(409)</b>	<b>134</b>
<b>Net change in cash and cash equivalents</b>	23	<b>(423)</b>	<b>556</b>	<b>(423)</b>	<b>556</b>
		<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at the beginning of the year	23	846	290	846	290
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	23	<b>423</b>	<b>846</b>	<b>423</b>	<b>846</b>
		<hr/>	<hr/>	<hr/>	<hr/>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements

### 1. Corporate information

The financial statements of the Group and Company for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 19 February 2014. The statements of financial position were signed on behalf of the board by Neal Milsom. The Company is a limited company incorporated and domiciled in the United Kingdom. The registered office is located at Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW.

The Group and Company previously known as Everything Everywhere Limited became EE Limited following a name change on 2 September 2013.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as adopted by the European Union.

The Company financial statements for the year ended 31 December 2013 have been converted to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as adopted by the European Union. A reconciliation of prior year's UK GAAP statutory accounts to IFRS is set out in note 35.

The Company financial statements have been prepared on a going concern basis and in accordance with IFRS as issued by the IASB, as adopted by the European Union and the Companies Act 2006.

As permitted by Section 408(3) of the Companies Act 2006, no income statement is presented for the Company, however the Company's income statement has been approved by the Board of Directors. The Company profit after tax for the year ended 31 December 2013 was £175 million (2012: £50 million).

The Group and Company financial statements are prepared in British Pounds and all values are rounded to the nearest million pounds (£m) except when otherwise indicated.

### Going concern

The Group's business activities, the factors likely to affect its future development and position, and the principal risks and uncertainties faced by the Group, are set out in the Strategic Report. The Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Group to continue as a going concern.

The Group is expected to continue to generate positive operating cash flows for the foreseeable future and has a number of financing arrangements in place that it is reliant upon to remain a going concern.

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 Group and Company annual financial statements.

### New basis reserve

The Group was formed on 1 April 2010 as a joint venture between Deutsche Telekom A.G. ("DT") and Orange S.A. ("Orange"). Each participant contributed a number of subsidiaries to the venture including T-Mobile (UK) Limited which became the parent company of the joint venture and in July 2010 was renamed as Everything Everywhere Limited (which was subsequently renamed as EE Limited in 2013).

Although the arrangement involved Everything Everywhere Limited acquiring shares in other companies, the arrangement was not within the scope of IFRS 3 as it involved the formation of a joint venture. Moreover, it was not possible to identify an acquiring or an acquired entity. The Directors concluded that it was appropriate to prepare the financial statements on the assumption that, on the formation of the Group, an entirely new reporting entity was formed. The Group prepared its consolidated statement of financial position as at the date of the combination on this

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.1 Basis of preparation (continued)

#### New basis reserve (continued)

basis including all of its assets and liabilities at fair value together with goodwill arising. The fair value was determined based on what a market participant would pay for the Group once formed.

The valuation therefore included the synergies of the combined businesses as well as the rationalisation costs associated with achieving them. Thus goodwill relates to the value of the Group as a whole.

The reserve that arose on consolidation which was termed "New basis reserve" consists of all the previously recognised retained earnings of the subsidiaries contributed to the Group, as well as the fair value adjustments made to all assets and all liabilities on the formation of the new reporting entity as at 1 April 2010.

Under new basis accounting, fair values were applied to the assets and liabilities of all parties to the combination, to reflect the substance of the transaction, and to avoid the imbalance created by identifying one party as the acquirer and the other as the acquired. Furthermore, the new basis approach allows for the impact of the expected Group synergies and rationalisations to be reflected in the consolidated balance sheet upon formation.

#### Significant estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment in future periods, to the carrying amounts of assets or liabilities affected.

#### Judgements

##### Operating lease commitments - the Group as lessee

The Group has entered into property leases relating to mast sites, office space and retail shops. The Group has determined, on the basis of an evaluation of the terms and conditions of the arrangements, that the landlords retain all the significant risks and rewards of ownership. Accordingly it has accounted for these items as operating leases. Details of the Group's commitments are set out in note 32.

#### Estimates and assumptions

The Group based its estimates and assumptions on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however may change due to market circumstances, or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### Provisions

A provision is recognised when the Group has a present obligation towards a third party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory, contractual, or it may represent a constructive obligation. Constructive obligations arise from the Group's actions whereby an established pattern of past practice, or published policies, create a valid expectation on the part of other parties that the Group will discharge certain responsibilities.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Group to settle its obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded and the obligation is deemed to be a contingent liability. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the provisions within the next financial year are as follows:

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.1 Basis of preparation (continued)

#### Significant estimates and judgements (continued)

##### Provisions (continued)

Onerous lease provision: This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. Assumptions are made about the value of future payments and receipts based on market conditions and the timing concerning any future sub-letting of space. The provision is calculated at net present value using a discounted cash flow model.

Asset Retirement Obligation (ARO): The Group is required to dismantle equipment and restore sites and properties under operating leases. The ARO provision is based on the best estimate of the amount required to settle the obligation. This estimate is revised annually. The provision is calculated at net present value using a discounted cash flow model.

Network share and other: This represents the liabilities arising from restructuring obligations relating to network share agreements and one off costs relating to the restructuring of the group, both before and after the combination of the T-Mobile and Orange businesses. The obligations involve estimates of both operational costs and vacant site rentals. These costs are of a long term nature. The provision is calculated at net present value using a discounted cash flow model. The provision also includes an amount to cover ongoing legal disputes with other network operators. The directors, having taken legal advice have established provisions according to the facts of each case. The timing of cash flows associated with legal cases is uncertain.

##### Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. Additional information is disclosed in note 28.

##### Taxation

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Consequently, the determination of the Group's taxation position requires the directors to make significant judgements and estimates. Differences arising between the actual results and the assumptions made, or future changes to such assumptions could necessitate future adjustment to tax income and expense already recorded.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available, against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the expected timing and the level of future profit.

##### Goodwill and intangible asset impairment

Goodwill is subject to an annual impairment test which takes into account projected future cash flows and an appropriate discount rate and is therefore subject to management judgement. For further details refer to note 17 where sensitivities to the assumptions used are also discussed.

##### Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of financial instruments.



# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.1 Basis of preparation (continued)

#### Significant estimates and judgements (continued)

##### Classification of Joint Arrangements

The Group holds interests in a number of joint arrangements, comprising both joint operations and joint ventures.

##### Joint Operations

The Group's joint operation, Mobile Broadband Network Limited ("MBNL"), is structured in a separate incorporated company. The Group holds 50% of the interest in the arrangement and, under the joint arrangement agreement, unanimous consent is required from all parties to the agreement for all significant relevant activities. MBNL operates solely for the benefit of the parties to the joint arrangement and all of MBNL's output is to those parties. The Group and other parties to the agreement have a direct share in all of the assets employed by the arrangement and is liable for its share of the liabilities incurred through the terms of the contractual arrangement. MBNL relies on the parties to the agreement on a continuous basis for the settlement of liabilities. Other facts and circumstances have also been considered to determine the classification of this arrangement.

This arrangement is therefore classified as a joint operation of the Group.

##### Joint Ventures

The Group has entered into a number of arrangements which have been classified as joint ventures. The judgements surrounding such classification of arrangements are outlined below. Other facts and circumstances have also been considered to determine the classification of these arrangements.

Name	Percentage shareholding	Separate Entity	Principal activities
Midland Communications Distribution Limited	35%	Yes	Communication distribution
Mainline Communications Group PLC	26%	Yes	Communication distribution
Weve Limited	33.3%	Yes	Development of mobile marketing services

In each of the above, the contractual arrangements provide the investors with collective control over the entities, and significant decisions around relevant activities require the unanimous consent of all invested parties. Additionally, investors have rights to the net assets of the entities above, rather than rights to the assets and obligations to the liabilities of the companies.

These arrangements are therefore classified as joint ventures of the Group.

##### Investments in Associates

The Group has a 25% shareholding in Digital Mobile Spectrum Limited ("DMSL"), together with Hutchinson 3G UK Limited, O2 (Telefónica UK Limited) and Vodafone UK Limited. The company was formed on 10 October 2012, and is responsible for ensuring households continue to receive Freeview TV when new 4G (LTE 800) mobile services are launched. Operational activities and funding requirements for DMSL are determined by the company (DMSL) in conjunction with Ofcom; as a result, the individual shareholders do not have joint control over the company collectively.

Operational activities of the company are directed by the Government and Ofcom with the shareholders providing funding on an equal basis.

This investment is therefore classified as an investment in associate.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of EE Limited and its subsidiaries as at 31 December 2013.

Subsidiaries that are controlled exclusively by the Group, directly or indirectly, are fully consolidated. Control is deemed to exist when the Group owns more than 50% of the voting rights of an entity or has power:

- over more than one half of the voting rights of the other entity by virtue of an agreement;
- to govern the financial and operating policies of the other entity under a statute or agreement;
- to appoint or remove the majority of the Members of the Board of Directors or equivalent governing body of the other entity; or
- to cast the majority of votes at meetings of the Board of Directors or equivalent governing body of the other entity.

If the above fully consolidated subsidiaries have any exclusively controlled, fully consolidated subsidiaries that are not wholly owned, non-controlling interests in these subsidiaries are recognised separately in the Group's consolidated financial statements.

Companies that are controlled jointly by the Group and a limited number of other shareholders through a contractual arrangement are accounted for using the equity method unless they have been classified as a joint operation.

Companies over which the Group exercises significant influence (generally corresponding to an ownership interest of 20% to 50%) are accounted for using the equity method.

When assessing the level of control or significant influence exercised over a subsidiary or associate, account is taken of the existence and effect of any exercisable or convertible potential voting rights at the balance sheet date.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

### 2.3 Summary of significant accounting policies

#### a) Goodwill and business combinations

Goodwill arises from the combination of the subsidiary businesses that formed the Group (refer to section 2.1). Goodwill is initially measured at cost being the excess of the equity value transferred into the Group upon formation over the net fair value of the identifiable assets and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but tested for impairment at least once a year, or more frequently when there is an indication that it may be impaired. For the purpose of impairment testing, goodwill arising from formation is allocated to the cash generating unit ("CGU") that is expected to benefit from the combination.

A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### a) Goodwill and business combinations (continued)

Under IAS 36 if goodwill arising from a business combination cannot be allocated to CGUs by the end of the period in which the combination is effected, the initial allocation shall be completed before the end of the first period beginning after the combination.

Following the initial allocation of goodwill to CGUs, subsequent reviews of the allocation are performed if the Group changes the level at which it monitors return on investment for goodwill testing purposes.

An impairment loss for goodwill is recorded in the income statement as a deduction from operating profit and is never reversed subsequently.

To determine whether an impairment loss should be recognised, the carrying value of the assets and liabilities of the CGUs or groups of CGUs is compared to their recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is the best estimate of the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. This estimate is determined on the basis of available market information including:

- (i) revenue and EBITDA multiples for comparable companies adjusted for a control premium; and;
- (ii) revenue and EBITDA multiples for comparable transactions.

In the absence of appropriate market information the Group will use alternate valuation methods such as:

- (i) the discounted present value of future cash flows over a five-year period, plus a terminal value.

Value in use is the present value of the future cash flows expected to be derived from the CGUs or groups of CGUs. Cash flow projections are based on economic and regulatory assumptions, licence renewal assumptions and forecast trading conditions drawn up by the Group's management, as follows:

- cash flow projections are based on five-year business plans;
- cash flow projections beyond that timeframe are extrapolated by growth rate to perpetuity reflecting the expected long-term growth in the market; and
- the cash flows obtained are discounted using appropriate rates for the type of business and the countries concerned.

### b) Cash generating unit ("CGU")

For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, known as cash-generating units. The Group has determined that it has one CGU and therefore this is the lowest level within the entity at which goodwill is monitored by internal management.

### c) Interests in Joint Arrangements

Under IFRS 11, 'Joint Arrangements', investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations that each investor has, rather than the legal structure of the arrangement. The Group has assessed the nature of its joint arrangements and determined that it has both joint operations and joint ventures.

#### (i) Interests in Joint Operations

The Group recognises its direct rights to (and its share of) jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate headings.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### c) Interests in Joint Arrangements (continued)

##### (ii) Interests in Joint Ventures

The Group reports its interests in joint ventures using the equity method whereby an equity investment is initially recorded at cost and subsequently adjusted to reflect the Group's share of the net assets.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is included in the carrying value of the investment and neither amortised nor individually tested for impairment. The overall investment is tested for impairment on an annual basis.

When a Group entity transacts with its joint venture, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

##### d) Interests in Associates

The results, assets and liabilities of associates are included in the Group's financial statements using equity accounting. The carrying amount of interests under equity accounting corresponds to the initial cost increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. In case of losses after the carrying amount of investment is reduced to zero, the Group ceases to recognise the additional share of losses unless it is committed beyond its investment.

##### e) Foreign currency translation

The Group's consolidated financial statements are presented in British Pounds, which is also the functional currency of the parent company and all other Group entities unless otherwise stated.

Transactions in foreign currencies are converted into the functional currency at the exchange rate at the transaction date.

Monetary assets and liabilities are re-measured at each consolidated statement of financial position date at the period-end at the functional currency exchange rate and the resulting translation differences are recorded in the income statement:

- (i) in operating income for commercial transactions;
- (ii) in finance income or finance costs for financial transactions.

Both for transactions qualifying for fair value hedge accounting and for economic hedging, changes in fair value of currency derivatives that can be attributed to changes in exchange rate are accounted for under other operating income / expense when the underlying hedged item is an operating transaction and under finance income / expense when the underlying hedged item is a financing transaction. For cash flow hedges of a highly probable forecast transaction, changes in fair value are booked in equity to the extent that the hedge is effective and reclassified to the consolidated income statement when the hedged item affects the consolidated income statement.

##### f) Revenue recognition

Revenue includes:

- amounts invoiced for airtime and related services supplied to subscribers, together with airtime income earned but not invoiced;
- amounts invoiced for interconnect in respect of calls terminating on the EE network, together with interconnect income earned but not invoiced;
- income from the sale of connected handsets and related accessories supplied to subscribers within the period;
- income from the sale of handsets and related accessories delivered to intermediaries within the period; and

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### f) Revenue recognition (continued)

- income from pre-paid customers which is deferred in the consolidated statement of financial position on purchase by the customer and released to the consolidated income statement as calls are made.

Revenue excludes airtime income billed in advance and value added tax.

Payments to customers, including payments to dealers and agents (discounts, provisions) are recognised as a decrease in revenue. If the consideration provides a benefit in its own right and can be reliably measured, the payments are recognised as expenses.

Revenues from the Group's activities are recognised and presented as follows, in accordance with IAS18: Revenue.

#### Separable components of packaged and bundled offers

Numerous service offers by the Group include two components: equipment (e.g. a mobile handset) and a service (e.g. a talk plan). For the sale of multiple products or services, the Group evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting using the framework of the Emerging Issues Task Force no. 08-01 'Accounting for Revenue Arrangements with Multiple Deliverables' (EITF 08-01) as permitted by IAS 8.12.

A delivered item is considered a separate unit of accounting if (i) it has value to the customer on a standalone basis, and (ii) there is objective and reliable evidence of the fair value of the undelivered item(s).

The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on their relative fair value. However, when an amount allocated to a delivered item is contingent upon the delivery of additional items or meeting specified performance conditions, the amount allocated to that delivered item is limited to the non contingent amount.

Sales of bundled offers in the mobile business frequently include a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount attributable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue recognised for the handset sale is generally limited to the amount of the arrangement that is not contingent upon the rendering of telecommunication services, i.e. the amount paid by the customer for the handset.

For offers that cannot be separated into identifiable components, revenues are recognised in full over the life of the contract. The main example is connection to the service: this does not represent a separately identifiable transaction from the subscription and communications, and connection fees are therefore recognised over the average expected life of the contractual relationship.

#### Equipment sales

Revenues from equipment sales are recognised when the significant risks and rewards of ownership are transferred to the buyer.

#### Equipment rental

In accordance with IFRIC 4: Determining Whether an Arrangement Contains a Lease, equipment for which a right of use is granted is analysed in accordance with IAS 17: Leases.

Equipment lease revenues are recognised on a straight-line basis over the life of the lease agreement, except in the case of finance leases which are accounted for as sales on credit.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### f) Revenue recognition (continued)

##### Revenue share arrangements

The accounting for revenue sharing arrangements and supply depends on the analysis of the facts and circumstances surrounding these transactions. To determine if the revenue must be recognised on a gross or a net basis, an analysis is performed using the following criteria:

1. the Group is the primary obligor of the arrangement;
2. the Group bears inventory risk;
3. the Group has a reasonable latitude in establishing price with the customer for the service;
4. the Group has discretion in supplier selection;
5. the Group is involved in the determination of service specifications; and
6. the Group bears the credit risk.

Therefore, revenue-sharing arrangements (premium rate number, special numbers, etc.) are recognised:

- gross when the Group has a reasonable latitude in setting prices and determining the key features of the content (service or product) sold to the end customer; and
- net of amounts due to the service provider when the latter is responsible for the service and for setting the price to be paid by subscribers.

Similarly, revenues from the sale or supply of content (audio, video, games, etc.) via the Group's various communications systems (mobile, PC, etc.) are recognised:

- gross when the Group is deemed to be the primary obligor in the transaction with respect to the end customer (i.e. when the customer has no specific recourse against the content provider), when the Group bears the inventory risk and has a reasonable latitude in the selection of content providers and in setting prices charged to the end customer; and
- net of amounts due to the content provider when the latter is responsible for supplying the content to the end customer and for setting the price to subscribers.

##### Service revenues

Revenues from telephone service and internet access subscription fees as well as those from the wholesale access revenues are recognised on a straight-line basis over the subscription period.

Revenues from charges for incoming and outgoing telephone calls as well as those from the wholesale of traffic are recognised in revenue when the service is rendered.

##### Business contracts

The Group offers customised solutions to its business customers. Commercial discounts may be granted under the related contracts, if certain conditions are fulfilled, and are usually recorded as a deduction from revenue based upon the specific terms of each contract.

Costs associated with migrating business customers from other networks onto the Group network are recognised in expenses when they are incurred, except in the case of contracts that include an early termination compensation clause.

##### Promotional offers

Revenues are stated net of discounts. For certain commercial offers where customers are offered a free service over a certain period in exchange for signing up for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the fixed, non-cancellable period.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### f) Revenue recognition (continued)

##### Penalties

All the Group's commercial contracts contain service level commitments (delivery time, service reinstatement time). These service level agreements cover commitments given by the Group on the order process, the delivery process, and after sales services.

If the Group fails to comply with one of these commitments, it pays compensation to the end-customer, usually in the form of a price reduction which is deducted from revenues. Such penalties are recorded when it becomes probable that they will be due based on the non-achievement of contractual terms.

##### Subscriber acquisition and retention costs

Subscriber acquisition and retention costs, other than loyalty programs costs, are recognised as an expense for the period in which they are incurred, that is to say on acquisition or renewal. In some cases, contractual clauses with retailers provide for a profit-sharing based on the recognised and paid revenue: this profit-sharing is expensed when the related revenue is recognised.

##### Loyalty programs

Credits awarded to customers are treated as a separable deliverable component of the transaction that triggered the acquisition of credit.

An element of the invoiced revenue is allocated to the credit based on its value taking into account an estimated utilisation rate, and deferred until the date on which the credits are definitively converted into benefits. The credit's value is defined as the excess discount over the sales incentive that would be granted to any new customer.

#### g) Advertising and related costs

Advertising, promotion, sponsoring, communication and brand marketing costs are charged to selling and distribution costs in the consolidated income statement as incurred.

#### h) Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the construction or acquisition of qualifying assets. A qualifying asset is one that takes a period in excess of 12 months to get ready for its intended use.

#### i) Operating and finance leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are recognised as a reduction of the rental expense over the lease term.

Assets acquired under leases that transfer the risks and rewards of ownership to the Company (finance leases) are recorded as assets and an obligation in the same amount is recorded in liabilities.

#### j) Intangible assets

On formation of the Group, fair values were applied to all identifiable intangible assets, recognised in the consolidated statement of financial position at the date of the combination.

Intangible assets acquired subsequent to the formation of the Group are initially recognised at cost.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### j) Intangible assets (continued)

##### Customer relationships

The following useful economic lives have been applied to the identified customer relationship assets:

- Pre-pay relationships 4 years
- Post-pay relationships 9 years
- Mobile Virtual Network Operator relationships ("MVNO") 6 to 14 years (based upon contract period)

New customer relationships entered into following the formation of the Group are not capitalised, and any associated costs are charged through the consolidated income statement as incurred.

##### Spectrum

The fair value of the spectrum to operate mobile telephone networks determined at the date of combination are amortised through the consolidated income statement on a straight-line basis from the date of combination for the remaining spectrum period, which does not exceed 11 years.

The Group and Company acquired £620 million of additional spectrum in the year following successful participation in the Ofcom spectrum auction. This intangible asset has not yet been amortised as it had not been brought into use in the period.

##### Other - Software and research and development costs

The Group's research and development projects mainly concern:

- upgrading the network architecture or functionality; and
- developing service platforms aimed at offering new services to the Group's customers.

These projects generally give rise to the development of software that does not form an integral part of the network's tangible assets. Under IAS 38, software that machinery cannot function without, is considered integral to the related hardware and is capitalised as property, plant and equipment. When the software is not an integral part of the hardware it is treated as an intangible asset.

Development costs are recognised as intangible assets when the following conditions are met:

- the intention to complete the intangible asset and use or sell it and the ability of adequate technical and financial resources for this purpose;
- the probability for the intangible asset to generate future economic benefits for the Group; and
- the reliable measurement of the expenditure attributable to the intangible asset during its development.

Research costs and development costs not fulfilling the above criteria are expensed as incurred. Capitalised development costs are presented in the same way as software on the "intangible assets" line. They are amortised on a straight-line basis over their expected useful life generally not exceeding 3 years. Software is amortised on a straight-line basis over its expected useful life which does not exceed 5 years.



# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### j) Intangible assets (continued)

##### Other - Software and research and development costs (continued)

Website development costs are capitalised when all of the following conditions are met:

- it is probable that the website will be successfully developed, the Group has adequate resources (technical, financial and other) and has the intention of and the ability to complete the site and use or sell it;
- the website will generate future economic benefits; and
- the Group has the ability to reliably measure the expenditure attributable to the website during its development.

Capitalised costs are amortised on a straight-line basis over its expected useful life which does not exceed 5 years.

Expenditure incurred after the website has been completed is recorded as an expense, except where it enables the website to generate future additional economic benefits provided it can be reliably estimated and attributed to the website.

##### Other - Licences

Purchased licences are capitalised as intangibles at cost. They are then amortised over the licence period.

##### Other – rights to use

Where the Group enters into a supplier service contract which entitles the Group to a 'right of use' for certain assets, relevant payments are capitalised as intangibles. These costs are amortised on a straight life basis over the life of the contract.

#### k) Property, plant and equipment

On formation of the Group, fair values were applied to all identifiable property, plant and equipment, recognised in the consolidated statement of financial position at the date of the combination.

Property, plant and equipment acquired or constructed subsequent to formation of the Group is initially recognised at cost.

##### Cost

The cost of tangible assets corresponds to their purchase or production cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, representing the obligation incurred by the Group.

The cost of networks includes design and construction costs, as well as capacity improvement costs. The total cost of an asset is allocated among its different components and each component accounted for separately, when the components have different useful lives or when the pattern in which their future economic benefits are expected to be consumed by the entity varies. Depreciation is then revised accordingly. Maintenance and repair costs are expensed as incurred, except where they serve to restore or increase the asset's productivity or prolong its useful life.

##### Network share assets

Certain assets have been contributed to a network share arrangement by both the Group and Hutchison 3G UK Limited, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement, and the Group's share of the assets were initially recognised at fair value within tangible assets, and depreciated according to Group policy. Subsequent additions since the formation of EE have been recognised at cost. For further information see note 18.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### k) Property, plant and equipment (continued)

##### Finance leases

Assets acquired under leases that transfer the risks and rewards of ownership to the Group are recorded as assets and an obligation in the same amount is recorded in liabilities. The risks and rewards of ownership are considered as having been transferred to the Group when:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the estimated economic life of the leased asset; and
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

##### Government grants

The Group may receive non-repayable government grants in the form of direct or indirect funding of capital projects, mainly provided by local and regional authorities. These grants are deducted from the cost of the related assets and recognised in the income statement, based on the pattern in which the related asset's expected future economic benefits are consumed.

##### Depreciation

Property, plant and equipment are depreciated to write off their cost less any residual value on a basis that reflects the pattern in which their future economic benefits are expected to be consumed.

Therefore, the straight-line basis is usually applied over the following estimated useful lives:

- |                                      |                                   |
|--------------------------------------|-----------------------------------|
| • Freehold land:                     | Not depreciated                   |
| • Freehold buildings:                | 50 years                          |
| • Short-term leasehold improvements: | shorter of 10 years or lease term |
| • Network:                           | 5 to 20 years                     |
| • Fixtures, fittings and equipment:  | 3 to 6 years                      |

These useful lives are reviewed annually and are adjusted if current estimated useful lives are different from previous estimates. These changes in accounting estimates are recognised prospectively.

#### l) Impairment of non-current assets other than goodwill

In the case of a decline in the recoverable amount of an item of property, plant and equipment or an intangible asset to below its net book value, due to events or circumstances occurring during the period (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) an impairment loss is recognised.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, assessed by the discounted cash flows method, based on management's best estimate of the set of economic conditions. The impairment loss recognised is equal to the difference between the net book value and the recoverable amount.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### m) Financial assets and liabilities

Financial assets and liabilities are recognised initially at fair value. They are subsequently measured either at fair value or amortised cost using the effective interest method, in accordance with the IAS 39 category they belong to. The effective interest rate is the rate that discounts estimated future cash payments through the expected contractual term, or the most probable expected term of the financial instrument, to the net carrying amount of the financial liability. This calculation includes all fees and points paid or received between parties to the contract.

#### Loans and receivables

This category mainly includes trade receivables, cash, some cash collateral, as well as other loans and receivables. These instruments are recognised at fair value upon origination and are subsequently measured at amortised cost by the effective interest method. Short-term receivables with no stated interest rate are measured at original invoice amount unless there is any significant impact resulting from the application of an implicit interest rate.

If there is any objective evidence of impairment of these assets, the value of the asset is reviewed at each balance sheet date. An impairment loss is recognised in the income statement when the financial asset carrying amount is higher than its recoverable amount.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are:

- assets held for trading that the Group acquired principally for the purpose of selling them in the near term;
- assets that form a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking;
- derivative assets not qualifying for hedge accounting;
- assets voluntarily classified at inception in this category because:
  - this classification allows the elimination or significant reduction of a measurement or recognition inconsistency regarding recognition of assets or liabilities linked together, that would otherwise be assessed differently (for instance, a financial asset measured at fair value, linked to a financial liability measured at amortised cost);
  - a group of financial assets, financial liabilities or both is managed and its performance is valued on a fair value basis, in accordance with a documented risk management or investment strategy, and information about this group of financial instruments is provided internally on that basis to the Group's key management personnel; and
  - the entity decides not to separate from the host contract a separable embedded derivative. It should then assess the entire hybrid instrument at its fair value.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### m) Financial assets and liabilities (continued)

##### Recognition and measurement of financial liabilities

##### Financial liabilities at amortised cost

With the exception of financial liabilities carried at fair value, borrowings and other financial liabilities are recognised upon origination at fair value of the sums paid or received in exchange for the liability, and subsequently measured at amortised cost using the effective interest method. Interest-free payables are booked at their nominal value.

Transaction costs that are directly attributable to the acquisition or issue of the financial liability are deducted from the liability's carrying value. The costs are subsequently amortised over the life of the debt, by the effective interest method.

Within the Group, some financial liabilities at amortised cost, including borrowings, are subject to hedge accounting. These relate mostly to fixed rate borrowings hedged against changes in interest rate and currency value (fair value hedge) and to foreign currency borrowings in order to hedge to future cash flows against changes in currency value (cash flow hedge).

##### Financial liabilities at fair value through profit or loss

The above mentioned comments relating to financial assets at fair value through profit or loss in the consolidated income statement are applicable to the financial liabilities of identical nature.

##### Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency and interest rate risks respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss in the Group income statement except for the effective portion of cash flow hedges which is recognised in other comprehensive income.

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.
- Cash flow hedges when hedging the exposure to variability in cash flows which is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedging relationship, the Group formally documents and designates the hedge relationship for which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will; assess the effectiveness of changes in the hedging instruments fair value in offsetting the exposure to changes in the hedged item's fair value or the cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they have actually been effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as described following:

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### m) Financial assets and liabilities (continued)

##### Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement as finance costs. The change in the fair value of the hedged item is also recognised in the income statement as finance costs.

If the hedged item is de-recognised, the unamortized gain value is recognised immediately in profit or loss.

When an unrecognised commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

##### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised in the income statement.

The Group uses forward currency contracts as hedges to its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised in finance costs.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or expenses is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

#### n) Equipment inventories

Network maintenance equipment and equipment to be sold to customers are stated at the lower of cost or net realisable value, taking into account expected revenues from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by the FIFO cost method.

#### o) Provisions

A provision is recognised when the Group has a present obligation towards a third party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory, contractual, or it may represent a constructive obligation. Constructive obligations arise from the Group's actions whereby an established pattern of past practice, published policies or a sufficiently specific current statement create a valid expectation on the part of other parties that the Group will discharge certain responsibilities.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Group to settle its obligation. If a reliable estimate cannot be made of the amount of the obligation, no provision is recorded and the obligation is deemed to be a contingent liability.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### o) Provisions (continued)

Contingent liabilities are disclosed in the notes to the financial statements. They correspond to:

- possible obligations that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control; or
- present obligations arising from past events that are not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

#### p) Employee benefits

The Group operates both a defined benefit pension scheme, and a defined contribution pension scheme. Both schemes are accounted for in accordance with IAS 19: Employee benefits.

##### Defined Contribution Scheme

This scheme is open to all employees and the contributions payable are expensed to the consolidated income statement when service is rendered.

##### Defined Benefit Scheme

This scheme is closed to new members, but continues to operate for existing members.

The Group's net obligation in respect of the defined benefit scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service to date. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate used is the yield at the consolidated statement of financial position date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. The net obligation recognised in the consolidated statement of financial position is the present value of the defined benefit obligation less the fair value of the scheme's assets.

The consolidated income statement charge is split between an operating charge and a net interest charge. The operating charge reflects the service costs which are spread systematically over the working lives of the employees. The net interest charge is calculated by applying the discount rate to the net defined benefit liability at the start of each annual reporting period. Actuarial gains and losses are recognised in full in the period in which they occur and are presented in the consolidated statement of comprehensive income.

#### q) Share capital

Ordinary shares are classified as equity.

#### r) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the consolidated statement of financial position date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 2.3 Summary of significant accounting policies (continued)

#### s) Deferred taxes

Deferred tax is provided using the liability method on temporary differences at the consolidated statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except;

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of the deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available or allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each consolidated statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated statement of financial position date.

Deferred tax relating to items recognised directly in equity is recognised in the consolidated statement of comprehensive income or the consolidated statement of changes in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred tax relates to the same taxable entity and the same tax authority.

#### t) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand, overdrafts and amounts held in the cash pooling accounts with the shareholders.

#### u) Prior year comparatives

Prior year comparatives have been restated for the impact of new and revised IFRSs, see notes 3 and 4.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 3. New and revised IFRSs applied

The following revised IFRSs have been adopted in these Group and Company financial statements and where they have a material impact on the financial statements, the effect has been described below:

#### Annual improvements 2011

These annual improvements address six issues in the reporting cycle. It includes changes to:

- IFRS 1 – First time Adoption of International Financial Reporting Standards.
- IAS 1 – Financial Statement Presentation;
- IAS 16 – Property, Plant & Equipment;
- IAS 19 – Employee Benefits;
- IAS 32 – Financial Instruments; Presentation; and
- IAS 34 – Interim Financial Reporting

#### IAS 19 ‘Employee Benefits’

The Group applied IAS 19 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The comparative figures in the statement of financial position of the previous period presented (31 December 2012) has been accordingly restated.

IAS 19 (Revised 2011) changes, amongst other things, the accounting for defined benefit plans.

Some of the key changes that impacted the Group include the following:

- The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under IAS 19 (Revised 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. Following this change, the financing cost charged to the Group’s income statement for the year ended 31 December 2013 was £4 million (2012:£3 million) with a consequential other comprehensive income gain. There was no impact on the overall equity of the Group.

IAS 19 (Revised 2011) also requires more extensive disclosures. These have been provided in note 28.

IAS 19 (Revised 2011) has been applied retrospectively, with following permitted exceptions:

- The carrying amounts of other assets have not been adjusted for changes in employee benefit costs that were included before 1 January 2012
- Sensitivity disclosures for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided



# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 3. New and revised IFRSs applied (continued)

#### IFRS 10 'Consolidated financial statements'

IFRS 10 establishes a single controlled model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of the previously existing IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met by the investor including: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. IFRS 10 has had no impact on the consolidation of investments held by the Group.

#### IFRS 11 'Joint arrangements'

IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations exist where an operator has the rights to the assets and obligations relating to the arrangement and hence accounts for its interest in the assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The effective date is 1 January 2013.

The quantitative impact of implementing IFRS 11 on the financial statements is provided below:

#### Impact on Group income statement:

	2012 £m
<b>Revenue</b>	-
External purchases	-
Other operating income	-
Other operating expense	19
Staff costs	-
Amortisation and depreciation	(16)
Restructuring expenses	-
<b>Group operating profit/(loss)</b>	<b>3</b>
Finance income	-
Finance expense	(2)
Finance costs net	(2)
Share of (loss)/profit of associates and joint ventures	-
<b>Profit before tax</b>	<b>1</b>
Income tax	(1)
<b>Profit and Total Comprehensive Income for the year</b>	<b>-</b>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 3. New and revised IFRSs applied (continued)

#### IFRS 11 'Joint arrangements' (continued)

This transaction did not have any impact on Other Comprehensive Income.

#### Impact on Equity (increase/(decrease) in equity):

	2012 £m	2011 £m
<b>Non-current assets</b>		
Property, plant and equipment	153	126
Associates and joint ventures	(11)	(11)
Other financial assets	(110)	(90)
<b>Total non-current assets</b>	<b>32</b>	<b>25</b>
<b>Current assets</b>		
Trade and other receivables	(9)	(9)
<b>Total current assets</b>	<b>(9)</b>	<b>(9)</b>
<b>Total assets</b>	<b>23</b>	<b>16</b>
<b>Current liabilities</b>		
Trade and other payables	(22)	(15)
<b>Total current liabilities</b>	<b>(22)</b>	<b>(15)</b>
<b>Non-current liabilities</b>		
Other non-current liabilities	(1)	(1)
<b>Total non-current liabilities</b>	<b>(1)</b>	<b>(1)</b>
<b>Total liabilities</b>	<b>(23)</b>	<b>(16)</b>
<b>Total net assets</b>	<b>-</b>	<b>-</b>

#### IFRS 12 'Disclosures of interests in other entities'

IFRS 12 includes disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The effective date is 1 January 2013.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 4. New and revised IFRSs that have been issued but are not yet effective

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after 1 January 2014 and we consider will have an impact on the Group and Company financial statements.

#### **IFRS 9 'Financial Instruments'**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases are issued.

#### **IAS 32 'Financial Instruments' Presentation on asset and liability offsetting**

These amendments are to the application guidance in IAS 32 Financial Instruments: Presentation, and clarify some of the requirements for offsetting financial assets and liabilities on the balance sheet. The effective date is 1 January 2014.

#### **IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting'**

The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendment covers novations:

- That arise as a consequence of laws or regulations, or the introduction of laws or regulations;
- Where the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties;
- That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

All of the above criteria must be met to continue hedge accounting under this exception.

The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries. For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against the de-recognition criteria for financial instruments and the general conditions for continuation of hedge accounting.

The effective date is 1 January 2014.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 4. New and revised IFRSs that have been issued but are not yet effective (continued)

#### IAS 36 'Recoverable Amounts Disclosures for Non-Current Assets'

The amendments clarify the disclosure requirements in respect of fair value less costs of disposal. When IAS 36 Impairment of Assets was originally changed as a consequence of IFRS 13, the amendment required entities to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit was significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. This requirement has been deleted by the amendment.

In addition, the IASB added two disclosure requirements:

- Additional information about the fair value measurement of impaired assets when the recoverable amount is based on fair value less costs of disposal.
- Information about the discount rates that have been used when the recoverable amount is based on fair value less costs of disposal using a present value technique. The amendment harmonises disclosure requirements between value in use and fair value less costs of disposal.

The effective date is 1 January 2014.

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

The Group considered the effect of the above standards and revisions and it has been concluded that there will be no significant impact apart from the additional disclosures.

### 5. Segment Information

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 combination 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

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 6. EBITDA and Adjusted EBITDA

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Loss before tax	(101)	(251)
<i>Add back:</i>		
Net finance costs	100	86
Amortisation and depreciation	1,307	1,270
Share of Loss of joint ventures and associates	7	-
	<hr/>	<hr/>
EBITDA	1,313	1,105
<i>Add back:</i>		
Management and brand fees	182	218
Restructuring costs	79	106
	<hr/>	<hr/>
Adjusted EBITDA	1,574	1,429
	<hr/>	<hr/>

EBITDA is not a financial measure defined by IFRS as a measurement of financial performance and may not be comparable to other similarly-titled indicators used by other companies. EBITDA and adjusted EBITDA are provided as additional information only and should not be considered as a substitute for operating profit or net cash provided by operating activities.

The Group's management believes that EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation, and share of profits (losses) of associates and joint ventures) and adjusted EBITDA (EBITDA excluding management and brand fees and restructuring costs) are meaningful for investors because they provide an analysis of operating results and profitability using the same measures used by management. As a consequence, EBITDA and adjusted EBITDA are presented in addition to operating profit.

EBITDA and adjusted EBITDA, are two of the key measures of operating profitability used to i) implement investments and resource-allocation strategy, and ii) assess the performance of the management.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 7. Revenue

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Mobile service revenue	5,734	5,953
Other	748	704
	<hr/>	<hr/>
Total revenue	6,482	6,657
	<hr/>	<hr/>

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

### 8. External purchases

External purchases comprise:

- commercial expenses, which include purchases of handsets and other products sold, retail fees and commissions, and advertising, promotional, sponsoring costs;
- service fees and inter-operator costs;
- other network charges and IT charges which include outsourcing fees relating to technical operation and maintenance and IT; and
- other external purchases, which include overheads, real estate fees, equipment and call centre outsourcing fees, net of capitalised goods and service costs.

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Commercial expenses	2,512	2,582
Service fees and inter-operator costs	1,080	1,290
Other network charges, IT charges	332	285
Other external purchases	385	444
	<hr/>	<hr/>
Total external purchases	4,309	4,601
	<hr/>	<hr/>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 9. Auditor's remuneration

The remuneration of the auditor is analysed as follows:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts	1,160	1,200
Fees payable to the company's auditor and its associates and joint ventures for other services:		
- the audit of the company's subsidiaries pursuant to legislation	28	52
- half year review	100	113
- other assurance services	112	296
	1,400	1,661

### 10. Other operating income / expense

#### Group

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
<b>Other operating income</b>		
Other operating income	42	44
Foreign exchange gains on trade payables	8	-
Total other operating income	50	44
<b>Other operating expense</b>		
Property rates	78	93
Spectrum fees	32	34
Bad debt expense	78	77
Management and brand fees	182	218
Foreign exchange losses on trade payables	-	7
Total other operating expense	370	429

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 11. Employees

The average number of staff (including Directors) employed under contracts of service during the year is as follows:

	Year ended 31 December 2013 No.	Year ended 31 December 2012 No.
Operations	1,547	1,615
Selling and distribution	4,186	4,407
Customer care and administration	7,116	7,682
	<hr/>	<hr/>
	12,849	13,704
	<hr/>	<hr/>

The costs incurred in respect of these employees are:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Wages and salaries	423	428
Social security costs	49	51
Pension costs		
- Defined benefit	14	13
- Defined contribution	18	14
Own work capitalised (development costs)	(43)	(46)
	<hr/>	<hr/>
Total employee cost	461	460
	<hr/>	<hr/>

These costs include employee costs in relation to restructuring (see note 13).



# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 12. Directors' emoluments

The Directors, deemed to be key management personnel, received the following remuneration in respect of services rendered to the Group:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Remuneration	2,576	2,664
Pension costs	59	49
Amounts accrued under long term incentive schemes	879	758
Total emoluments	<u>3,514</u>	<u>3,471</u>

Employer's National Insurance contributions in respect of key management personnel were £475,000 (2012: £459,000).

The emoluments in relation to the highest paid Director are as follows:

	Year ended 31 December 2013 £'000	Year ended 31 December 2012 £'000
Total emoluments	2,685	2,672
Pension costs	11	-
	<u>2,696</u>	<u>2,672</u>

Retirement benefits in the form of defined contribution schemes are accruing for two directors at 31 December 2013 (31 December 2012: one).

### 13. Restructuring expenses

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Lease exit costs	14	12
Employee costs	13	3
Other	52	91
Total restructuring expenses	<u>79</u>	<u>106</u>

Other includes network integration and brand launch costs – including advertising, rebranding and closure of retail stores.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 14. Finance income

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Finance income on loans and receivables measured at amortised cost	1	1
Foreign exchange gains	1	-
Total finance income	<u>2</u>	<u>1</u>

### 15. Finance expense

	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Finance costs (calculated using effective interest rate) on financial liabilities measured at amortised cost	(89)	(67)
Unwinding of discount	(13)	(17)
Foreign exchange losses	-	(3)
Total finance expense	<u>(102)</u>	<u>(87)</u>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 16. Taxation

#### (a) Income tax charged in the consolidated income statement

	Year ended 31 December 2013 £m	Year ended 31 December 2012 restated £m
Current income tax:		
UK corporation tax	(31)	-
Adjustments in respect of previous periods	-	(6)
Total current income tax income	<u>(31)</u>	<u>(6)</u>
Deferred tax:		
Origination and reversal of temporary differences	18	(26)
Impact of tax rate change on deferred tax asset	21	15
Adjustments in respect of previous periods	(33)	(39)
Total deferred tax expense / (income)	<u>6</u>	<u>(50)</u>
Income tax (income) in the consolidated income statement	<u>(25)</u>	<u>(56)</u>

#### (b) Income tax charged in the consolidated statement of comprehensive income

	Year ended 31 December 2013 £m	Year ended 31 December 2012 restated £m
Deferred tax related to items charged or credited directly to the consolidated statement of comprehensive income:		
Deferred tax on actuarial loss on pension liability	(13)	(7)
Deferred tax on cash flow hedges	-	5
Deferred tax (income) in the consolidated statement of comprehensive income	<u>(13)</u>	<u>(2)</u>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 16. Taxation (continued)

#### (c) Reconciliation of the total income tax expense

The income tax expense for the year differs from the average standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are reconciled below:

	Year ended 31 December 2013 £m	Year ended 31 December 2012 restated £m
Accounting loss before income tax	(101)	(251)
Accounting loss multiplied by the UK average standard rate of corporation tax of 23.25% (2012: 24.5%)	(23)	(61)
Non-deductible expenses	10	35
Impact of tax rate change on the deferred tax asset	21	15
Current income tax adjustments in respect of previous periods	-	(6)
Deferred tax adjustments in respect of previous periods	(33)	(39)
Total income tax (income) at the effective tax rate of 25.0% (2012: 23.3%)	(25)	(56)

#### (d) Change in Corporation Tax rate

Announcements were made during 2013 by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Group. A reduction to 21%, effective from 1 April 2014, and a further reduction to 20% effective from 1 April 2015 were enacted on 17 July 2013.

The tax rate reduction to 21%, and 20% enacted during 2013, resulted in a decrease in the Group's net deferred tax asset of £21 million all of which was reported in the 2013 consolidated income statement.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 16. Taxation (continued)

#### (e) Deferred tax asset / (liability)

The deferred tax in the consolidated statement of financial position, calculated at a tax rate of 20% (31 December 2012: 23%, 31 December 2011: 25%), is as follows:

	31 December 2013 Group £m	31 December 2012 restated Group £m	31 December 2013 Company £m	31 December 2012 restated Company £m
<b>Deferred tax liability</b>				
Accelerated tax depreciation	(298)	(293)	(46)	82
Cash flow hedges	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
	<u>(299)</u>	<u>(294)</u>	<u>(47)</u>	<u>81</u>
<b>Deferred tax asset</b>				
Trading tax losses	404	386	404	386
Pension scheme liabilities	28	18	28	18
Provisions deductible on a paid basis	40	57	40	57
Cash flow hedges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>472</u>	<u>461</u>	<u>472</u>	<u>461</u>
<b>Disclosed in the consolidated statement of financial position</b>				
Net deferred tax asset	<u>173</u>	<u>167</u>	<u>425</u>	<u>542</u>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 16. Taxation (continued)

#### (e) Deferred tax asset / (liability) (continued)

The Group offsets deferred tax assets and liabilities if and only if it has a legally enforceable right to set off current income tax assets and current income tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority. The deferred tax assets and liabilities listed above relate to income tax levied by HM Revenue & Customs in the UK.

	31 December 2013 Group £m	31 December 2012 Group £m	31 December 2013 Company £m	31 December 2012 Company £m
<b>Opening balance at 1 January</b>	167	113	542	615
<b>Deferred tax (expense) /income in the consolidated income statement</b>				
Accelerated tax depreciation	(5)	128	(128)	9
Trading tax losses	18	(64)	18	(64)
Pension scheme liabilities	(3)	(2)	(3)	(3)
Provisions deductible on a paid basis	(17)	(10)	(17)	(17)
<b>Deferred tax (expense) /income in the consolidated statement of comprehensive income</b>				
Pension scheme liabilities	13	7	13	7
Cash flow hedges	-	(5)	-	(5)
<b>Closing balance at 31 December</b>	<u>173</u>	<u>167</u>	<u>425</u>	<u>542</u>

The deferred tax liability in respect of accelerated capital allowances relates to taxable temporary differences arising on all Property, Plant and equipment and intangible assets (including customer relationships at a group level).

The trading tax losses are available for indefinite carry forward and may only be offset against taxable profits arising from the same trade.

Although the Group was loss making in the year ended 31 December 2013, it considers that its net deferred tax asset is fully recoverable based on the results forecast in its five year strategic plan.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 17. Intangible assets

Group	Goodwill £m	Customer relationships £m	Spectrum £m	Other £m	Total £m
<i>Cost:</i>					
At 31 December 2011	5,692	2,600	3,682	800	12,774
Additions	-	-	-	124	124
Disposals	-	-	-	(2)	(2)
At 31 December 2012	5,692	2,600	3,682	922	12,896
Additions	-	-	620	123	743
At 31 December 2013	<u>5,692</u>	<u>2,600</u>	<u>4,302</u>	<u>1,045</u>	<u>13,639</u>
<i>Amortisation:</i>					
At 31 December 2011	-	(646)	(586)	(293)	(1,525)
Charge during the year	-	(369)	(335)	(173)	(877)
Disposals	-	-	-	2	2
At 31 December 2012	-	(1,015)	(921)	(464)	(2,400)
Charge during the year	-	(369)	(335)	(141)	(845)
At 31 December 2013	-	<u>(1,384)</u>	<u>(1,256)</u>	<u>(605)</u>	<u>(3,245)</u>
Net book value at 31 December 2013	<u>5,692</u>	<u>1,216</u>	<u>3,046</u>	<u>440</u>	<u>10,394</u>
Net book value at 31 December 2012	<u>5,692</u>	<u>1,585</u>	<u>2,761</u>	<u>458</u>	<u>10,496</u>
Net book value at 31 December 2011	<u>5,692</u>	<u>1,954</u>	<u>3,096</u>	<u>507</u>	<u>11,249</u>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 17. Intangible assets (continued)

Company	Goodwill £m	Spectrum £m	Other £m	Total £m
<i>Cost:</i>				
At 31 December 2011	637	3,682	692	5,011
Additions	-	-	124	124
Disposals	-	-	(2)	(2)
At 31 December 2012	637	3,682	814	5,133
Additions	-	620	124	744
At 31 December 2013	637	4,302	938	5,877
<i>Amortisation:</i>				
At 31 December 2011	-	(586)	(245)	(831)
Charge during the year	-	(335)	(158)	(493)
Disposals	-	-	2	2
At 31 December 2012	-	(921)	(401)	(1,322)
Charge during the year	-	(335)	(137)	(472)
At 31 December 2013	-	(1,256)	(538)	(1,794)
Net book value at 31 December 2013	637	3,046	400	4,083
Net book value at 31 December 2012	637	2,761	413	3,811
Net book value at 31 December 2011	637	3,096	447	4,180

#### Goodwill

Group goodwill arose upon the combination of the businesses that formed the Group. On formation of the Group, goodwill was initially measured at cost being the excess of the equity value transferred into the Group upon formation, over the net fair value of the identifiable assets and liabilities assumed.

Company goodwill arose prior to the formation of the Group.

#### Impairment test for goodwill and intangible assets

Goodwill is not ascribed a useful economic life, but, as required by IAS 36: Impairment of Assets, is subject to an annual impairment review. The impairment review for the Group was performed as at 31 October 2013, and resulted in no impairment to the carrying value of Goodwill.

To determine whether an impairment loss should be recognised, the carrying value of the assets and liabilities of the CGUs or groups of CGUs is compared to their recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.



# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 17. Intangible assets (continued)

#### Impairment test for goodwill and intangible assets (continued)

Fair value less costs to sell is the best estimate of the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. This estimate is determined on the basis of available market information including:

- (i) revenue and EBITDA multiples for comparable companies adjusted for a control premium; and;
- (ii) revenue and EBITDA multiples for comparable transactions.

In the absence of appropriate market information the Group will use alternate valuation methods such as:

- (i) the discounted present value of future cash flows over a five-year period, plus a terminal value.

Value in use is the present value of the future cash flows expected to be derived from the CGUs or groups of CGUs. Cash flow projections are based on economic and regulatory assumptions, licence renewal assumptions and forecast trading conditions drawn up by the Group's management, as follows:

- cash flow projections are based on five-year business plans;
- cash flow projections beyond that timeframe are extrapolated by growth rate to perpetuity reflecting the expected long-term growth in the market; and
- the cash flows obtained are discounted using appropriate rates for the type of business and the countries concerned.

The Group has determined that the business comprises a single operating segment to which all the Goodwill is allocated. The method used for establishing the recoverable amount was a value in use calculation derived from conventional discounted cash flow projections.

Measurement of the cash-generating unit is based upon historical information, together with financial plans which have been approved by management and are used for internal purposes. A 5 year forecast period was used because management considered that by the end of this period a reliable and sustainable cash flow would emerge on which to base the terminal value. Cash flows beyond this planning horizon are extrapolated using appropriate growth rates.

The value in use projections used a long term growth rate of 1% (2012: 1%), and a pre tax discount rate of 8.73% (2012: 9.03%). The discount rate used was based upon an estimated cost of capital (calculated using the capital asset pricing model) taking into account relevant sector information.

There were a number of key assumptions which affected the cash flow forecast of the business. These included assumptions about the synergies to be achieved following the formation of the Group in 2010, the development of the UK market and the market size, the Group's share of the market, customer revenues, operating margins and network maintenance expenditure. Any significant future changes in these assumptions would have an impact on the value in use.

The Group applied the following sensitivities to the discount rate and the growth rate:

- an increase in the discount rate by 0.5% to 9.23%
- a reduction in the long term growth rate by 0.25% to 0.75%.

In each case, no indication of impairment was identified.

The impairment test for the Company goodwill did not identify any indicators of impairment.

#### Customer relationships - Group

In accordance with IAS 36, an assessment at the consolidated statement of financial position date was performed to assess whether any indication of impairment existed for the customer relationships. No indicators of impairment were identified.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 17. Intangible assets (continued)

#### Spectrum – Group and company

In accordance with IAS 36, an assessment at the consolidated statement of financial position date was performed to assess whether any indication of impairment existed for the Spectrum. No indicators of impairment were identified.

The additional Spectrum licence acquired in the year was not amortised as at 31 December 2013 as the asset was not available for commercial use. The impairment test did not identify any indicators of impairment for this asset.

#### Other – Group and company

In accordance with IAS 36, an assessment at the consolidated statement of financial position date was performed to assess whether any indication of impairment existed for the other intangibles assets. No indicators of impairments were identified.

As at 31 December 2013, other intangible assets includes assets under construction of £132 million (2012: £173 million). The impairment test did not identify any indicators of impairment for these assets.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 18. Property, plant and equipment

Group and Company	Freehold land & buildings £m	Short term leasehold improvements £m	Network £m	Fixtures & fittings £m	Total £m
<i>Cost:</i>					
At 31 December 2011	53	121	2,464	96	2,734
Additions	-	31	489	5	525
Disposals	-	-	(58)	(2)	(60)
At 31 December 2012	53	152	2,895	99	3,199
Additions	-	7	445	12	464
Disposals	-	(4)	(57)	(5)	(66)
At 31 December 2013	53	155	3,283	106	3,597
<i>Depreciation:</i>					
At 31 December 2011	(2)	(20)	(498)	(30)	(550)
Charge during the year	(2)	(16)	(358)	(17)	(393)
Disposals	-	-	58	2	60
At 31 December 2012	(4)	(36)	(798)	(45)	(883)
Charge during the year	(2)	(11)	(418)	(31)	(462)
Disposals	-	4	52	5	61
At 31 December 2013	(6)	(43)	(1,164)	(71)	(1,284)
Net book value at 31 December 2013	47	112	2,119	35	2,313
Net book value at 31 December 2012	49	116	2,097	54	2,316
Net book value at 31 December 2011	51	101	1,966	66	2,184

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 18. Property, plant and equipment (continued)

#### Network Share Arrangement

Selected network assets are jointly controlled with Hutchison 3G UK Limited. The Group's share of the jointly controlled assets is £649 million at 31 December 2013 (2012: £689 million) and is shown within network assets.

Additionally, the Group is recognising cost of £48 million (2012: £54 million) as its share of jointly controlled network assets in the course of construction.

Included in Group network assets is £172 million (2012: £153 million), which is the Group's share of MBNL network assets as a result of adoption of IFRS 11.

#### Sale of rights

The net book amount of network assets includes towers and related assets, against which certain rights were sold to Crown Castle Transmission International by the former T-Mobile business from prior to the formation of the Group. Due to the fact that the Group still retains all of the economic benefits and functionality of the towers and related assets that existed before the transaction, the towers and related assets remain within the plant, property and equipment of the Group. The net book amount of these assets as at 31 December 2013 was £17 million (2012: £19 million).

#### Fully depreciated assets

Included above are fully depreciated assets with an original cost of £65 million (2012: £59 million) which are still in use.

#### Assets under construction

As at 31 December 2013, included within Network assets are £129 million (2012: £211 million) of assets under construction.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 19. Principal subsidiaries, associates and joint arrangements

#### a) Interests in subsidiaries

The Group's subsidiary undertakings throughout the year were as follows:

Name	Country of incorporation	Year end	Principal activities	Percentage shareholding
Orange Services India Private Limited	India	31 March	Management support	100%
Orange Personal Communications Services Limited	UK	31 December	Dormant	100%
EE (Group) Limited	UK	31 December	Dormant	100%
Orange Home UK Limited	UK	31 December	Dormant	100%
EE Pension Trustee Limited	UK	31 December	Pension Trustee	100%
Orange FURBS Trustees Limited	UK	31 December	Pension Trustee	100%
EE Finance Plc	UK	31 December	Finance Company	100%
Everything Everywhere Limited formerly EE Limited, formerly EE Communications Limited	UK	31 December	Dormant	100%
EE Communications (South Africa) Proprietary Limited	South Africa	31 December	Management support	100%

All subsidiaries have share capital consisting of ordinary shares. The subsidiaries with non-coterminous year ends are consolidated using the last relevant audited financial statements, adjusted for subsequent material transactions.

All subsidiaries have a functional currency of British Pounds except for Orange Services India Private Limited, which has a functional currency of Indian Rupees and EE Communications (South Africa) Proprietary Limited which has a functional currency of South African Rand.

Orange Services India Private Limited to comply with the Indian fiscal year reports to the year end of 31 March.

#### b) Interests in associates and joint arrangements

##### i) Joint Operations

The Group and Hutchison 3G UK Limited (together "the Companies") each have a 50% share in the joint operation Mobile Broadband Network Limited ("MBNL"). MBNL's ongoing purpose is the consolidation of the legacy networks, acquiring assets relevant to the shared network on behalf of the Companies, managing network and operational services as their agent in respect of the Shared Network and unilateral deployments (being network assets or services specific to one company only). The Group is committed to incurring 50% of costs in respect of restructuring the Shared Network.

Guarantees for the joint operation are given by DT and Hutchison Whampoa Limited. DT and Orange have agreed between them to manage any potential liability by arrangements between themselves.

The principal place of business of the joint operation is in the UK.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 19. Principal subsidiaries, associates and joint arrangements (continued)

#### ii) Interests in Associates and Joint Ventures

Set out below are the associates and joint ventures of the Group as at 31<sup>st</sup> December 2013 which, in the opinion of the directors, are individually not material to the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

The Group's associate and joint venture undertakings throughout the year were as follows:

Name	Year end	Nature of relationship	Principal activities	Percentage shareholding
Midland Communications Distribution Limited	31 October	Joint Venture	Communication distribution	35%
Mainline Communications Group PLC	31 August	Joint Venture	Communication distribution	26%
Weve Limited	-	Joint Venture	Development of mobile marketing services	33.3%
Digital Mobile Spectrum Limited	-	Associate	Corrective support for Freeview services affected by deployment of 4G (800 MHz)	25%

Those associates and joint ventures with non-coterminous year ends are equity accounted using the last relevant audited financial statements, adjusted for subsequent material transactions.

Both Weve Limited and Digital Mobile Spectrum Limited are in their first period of incorporation and have not filed annual accounts to date.

Reconciliation of impact of individually immaterial associates and joint arrangements on equity and financial performance:

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 19. Principal subsidiaries, associates and joint arrangements (continued)

<b>Group</b>	31 December 2013 £m	31 December 2012 £m
Aggregate carrying amount of individually immaterial associates and joint ventures	6	5
Aggregate amounts of the Group's share of: (loss) from continuing activities	(7)	-
<b>Total Comprehensive (Loss)</b>	<b>(7)</b>	<b>-</b>

<b>Company</b>	31 December 2013 £m	31 December 2012 £m
Aggregate carrying amount of individually immaterial associates and joint ventures	3	2

### 20. Inventories

<b>Group and Company</b>	31 December 2013 £m	31 December 2012 £m
Inventories of handsets	103	145
Gross value	103	145
Provision for obsolescence	(18)	(20)
Total inventories at the lower of cost and net realisable value	85	125

The amount of inventory included within external purchases was £1,324 million (2012: £1,414 million). This includes write-downs on new inventory of £5 million (2012: £6 million).

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 21. Trade and other receivables – Group and Company

	31 December 2013 £m	31 December 2012 £m
<b>Current:</b>		
Trade receivables	764	763
Prepaid external purchases	378	397
Other assets and prepaid operating expenses	5	10
	<hr/>	<hr/>
Total trade and other receivables	1,147	1,170
	<hr/>	<hr/>
	31 December 2013 £m	31 December 2012 £m
<b>Non-current:</b>		
Prepayments	22	25
	<hr/>	<hr/>

Included within Group trade receivables is £1 million (2012: £0 million) due from joint ventures. These trading balances are unsecured, interest free and have no fixed date of repayment. The remaining balance relates to receivables that are non-interest bearing, are generally on 15 or 30 days' terms, and are shown net of a provision for impairment.

As at 31 December 2013, trade receivables at nominal value of £124 million (2012: £130 million) were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for.



# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 21. Trade and other receivables – Group and Company (continued)

Movements in the provision for impairment of trade receivables were as follows:

	31 December 2013 £m	31 December 2012 £m
Opening balance	130	135
Decrease in provision	(6)	(5)
	<hr/>	<hr/>
Closing balance	124	130
	<hr/> <hr/>	<hr/> <hr/>

Trade receivables that were past due but not impaired may be analysed as follows:

	31 December 2013 £m	31 December 2012 £m
Neither past due nor impaired	701	693
Past due but not impaired		
30 days	17	20
60 days	46	50
	<hr/>	<hr/>
	764	763
	<hr/> <hr/>	<hr/> <hr/>

The carrying amounts for trade and other receivables approximate their fair value.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 22. Other financial assets

	31 December 2013 £m	31 December 2012 £m
Non-current loans		
Franchises	-	1
Total non-current loans	-	1

### 23. Cash and cash equivalents

	31 December 2013 £m	31 December 2012 £m
Cash at Bank	61	166
Cash Pooling	362	680
	423	846

Cash and cash equivalents also include the cash pooling account. On a daily basis the Group upstreams or downstreams cash to/from each Shareholder on an equal 50:50 basis. The account also earns interest at the overnight LIBOR rate minus 15 b.p.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 24. Trade and other payables – Group and Company

	31 December 2013 £m	31 December 2012 £m
<b>Current:</b>		
Trade Payables	1,610	1,607
VAT payable	194	184
Other taxes	6	5
Employee related payables	55	48
Deferred income	229	238
Interest payable	34	33
Other	24	35
	<hr/>	<hr/>
	2,152	2,150
	<hr/>	<hr/>
	31 December 2013 £m	31 December 2012 £m
<b>Non-current:</b>		
Other	1	3
	<hr/>	<hr/>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 25. Financial liabilities and net financial debt

Group	Interest rate %	31 December 2013 £m	31 December 2012 £m
<b>Interest bearing loans and borrowings</b>			
<b>Current:</b>			
Cash collateral received	SONIA/ EONIA	41	8
		41	8

Group	Interest rate %	Maturity	31 December 2013 £m	31 December 2012 £m
<b>Non-current</b>				
Euro medium term notes – five year bond	3.5	February 2017	413	408
Euro medium term note – seven year bond	4.375	March 2019	445	444
Euro medium term note – six year bond	3.25	August 2018	496	486
Revolving credit facility	LIBOR plus 0.95%	November 2016	-	-
Syndicated loan facilities	LIBOR plus 0.95%	November 2016	435	434
European Investment Bank loan	2.21	December 2017	350	350
			2,139	2,122

Company	31 December 2013 £m	31 December 2012 £m
<b>Current</b>		
Amount owed to subsidiary company	2,139	2,122
Cash collateral received	41	8
	2,180	2,130

Interest rates charged by the subsidiary company mirror the rates on the group liabilities above.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 25. Financial liabilities and net financial debt (continued)

#### Euro medium term note programme

The corporate bonds issued under the EMTN programme are traded on the London Stock Exchange main market.

The Group has capitalised £17 million of costs that were directly attributable to the bond issuances. These are being expensed through the profit and loss account over the life of the bonds using the effective interest rate method.

In relation to the two bond issuances denominated in Euros, the Group also entered into cross currency interest rate swaps to hedge the exposure to foreign exchange movements. The hedging relationships have been formally designated as cash flow hedges and accounted for in accordance with the accounting policies of the financial statements for the year ended 31 December 2013. Under the terms of the credit support agreements entered into with the swap counterparties, the Group receives or pays collateral based upon the mark to market valuation of the swap.

#### Cash collateral received

Cash collateral is received or paid depending upon the valuation of derivative financial instruments. Interest accrues at the Sterling Overnight Interbank Rate ("SONIA") and Euro Overnight Interbank Rate ("EONIA"). At 31 December 2013, the Group and Company had received a net amount of £41 million (2012: £8 million). This is recognised as a liability on the balance sheet in "Other financial liabilities".

#### Syndicated Loan Agreement

On 4 December 2013 the Group signed an agreement with its syndicate of banks to extend the maturity of its £438 million term loan to November 2016.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 25. Financial liabilities and net financial debt (continued)

#### Net financial debt

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

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

	31 December 2013 £m	31 December 2012 £m
Euro 500m 3.5% notes due 2017	416	409
Euro 600m 3.25% notes due 2018	499	490
£450m 4.375% notes due 2019	450	450
Finance lease liability	-	1
Syndicated bank loans (nominal amount)	438	438
European Investment Bank Loan	350	350
Cash collateral received	41	8
Financial liabilities	<u>2,194</u>	<u>2,146</u>
Cash & cash equivalents	(423)	(846)
Net financial debt	<u>1,771</u>	<u>1,300</u>

The year on year movement in the Euro denominated debt is partially due to the movement in the relevant foreign exchange rate (EUR/GBP) from 2012 to 2013. No new debt has been issued in 2013.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 26. Financial instruments

	31 December 2013 £m	31 December 2012 £m
<b>Derivative assets – Group and Company</b>		
<b>Current</b>		
Forward foreign currency contracts	-	8
	<hr/>	<hr/>
Total current derivative assets	-	8
<b>Non-current</b>		
Cross currency interest rate swaps – cash flow hedge	49	24
	<hr/>	<hr/>
Total non-current derivative assets	49	24
	<hr/>	<hr/>
	31 December 2013 £m	31 December 2012 £m
<b>Derivative liabilities</b>		
<b>Current</b>		
Forward foreign currency contracts	(11)	(4)
	<hr/>	<hr/>
Total current derivative liabilities	(11)	(4)
	<hr/>	<hr/>
<b>Non-current</b>		
Cross currency interest rate swaps – cash flow hedge	-	(7)
	<hr/>	<hr/>
Total current derivative liabilities	-	(7)
	<hr/>	<hr/>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 26. Financial instruments (continued)

#### Cash flow hedges

To hedge the exposure of some of its operating cash flows in foreign currencies, the Group has set up risk hedging policies. Financial risk management is described in note 33.

Currency	Hedged nominal amount (£m)	Maturity date of hedged item	Hedging instrument	Hedged risk
EUR	371	2014	Forward FX contracts	Purchases in Euros
USD	43	2014	Forward FX contracts	Purchases in Dollars

Cross currency interest rate swaps are utilised to mitigate risks associated with variable rate loans designated in foreign currency. These are as follows:

	Notional £m	Rate %	Maturity
Cross-currency interest rate swaps	887	€ Receivable 3.36 £ Payable 3.81	2017 - 2018

The notional principal amount of cross-currency interest rate swaps as at 31 December 2013 was £887 million (2012: £887 million).

Gains and losses associated with hedging activities are as follows:

	31 December 2013 £m	31 December 2012 £m
Gain recycled through income statement	(37)	(15)
Gain recognised in equity during the year	41	36
	4	21

The gains recycled through the income statement have been taken through external purchases (£9 million) and finance costs (£28 million).

#### Financial assets and liabilities by category

All the Group's financial assets and liabilities are held at amortised cost with the exception of derivative financial instruments which are held at fair value.



# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 26. Financial instruments (continued)

Group	Designated as cash flow hedges £m	Loans, receivables and financial liabilities at amortised cost £m	Total £m
<b>As at 31 December 2013</b>			
<b>Current assets</b>			
Cash and cash equivalents	-	423	423
Trade receivables	-	764	764
Forward foreign currency contracts	-	-	-
<b>Non-current assets</b>			
Cross currency interest rate swaps	49	-	49
<b>Current liabilities</b>			
Trade payables	-	(1,610)	(1,610)
Forward foreign currency contracts	(11)	-	(11)
Cash collateral received	-	(41)	(41)
<b>Non-current liabilities</b>			
Borrowings	-	(2,139)	(2,139)
<b>Total</b>	<b>38</b>	<b>(2,603)</b>	<b>(2,565)</b>
<b>As at 31 December 2012</b>			
<b>Current assets</b>			
Cash and cash equivalents	-	846	846
Trade receivables	-	763	763
Forward foreign currency contracts	8	-	8
<b>Non-current assets</b>			
Other financial assets	-	1	1
Cross currency interest rate swaps	24	-	24
<b>Current liabilities</b>			
Trade payables	-	(1,607)	(1,607)
Forward foreign currency contracts	(4)	-	(4)
Cash collateral received	-	(8)	(8)
<b>Non-current liabilities</b>			
Cross currency interest rate swaps	(7)	-	(7)
Borrowings	-	(2,122)	(2,122)
<b>Total</b>	<b>21</b>	<b>(2,127)</b>	<b>(2,106)</b>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 26. Financial instruments (continued)

Company	Designated as cash flow hedges £m	Loans, receivables and financial liabilities at amortised cost £m	Total £m
<b>As at 31 December 2013</b>			
<b>Current assets</b>			
Cash and cash equivalents	-	423	423
Trade receivables	-	764	764
Forward foreign currency contracts	-	-	-
<b>Non-current assets</b>			
Cross currency interest rate swaps	49	-	49
<b>Current liabilities</b>			
Trade payables	-	(1,610)	(1,610)
Forward foreign currency contracts	(11)	-	(11)
Cash collateral received	-	(41)	(41)
Borrowings	-	(2,139)	(2,139)
<b>Total</b>	<b>38</b>	<b>(2,603)</b>	<b>(2,565)</b>
<b>As at 31 December 2012</b>			
<b>Current assets</b>			
Cash and cash equivalents	-	846	846
Trade receivables	-	763	763
Forward foreign currency contracts	8	-	8
<b>Non-current assets</b>			
Other financial assets	-	1	1
Cross currency interest rate swaps	24	-	24
<b>Current liabilities</b>			
Trade payables	-	(1,607)	(1,607)
Forward foreign currency contracts	(4)	-	(4)
Cash collateral received	-	(8)	(8)
Borrowings	-	(2,122)	(2,122)
<b>Non-current liabilities</b>			
Cross currency interest rate swaps	(7)	-	(7)
<b>Total</b>	<b>21</b>	<b>(2,127)</b>	<b>(2,106)</b>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 26. Financial instruments (continued)

#### Fair value

The following table sets out a comparison of the carrying amounts and fair values of all financial liabilities which are carried in the balance sheet at values other than fair value.

#### 31 December 2013

	Carrying value £m	Fair value £m
<b>Financial liabilities</b>		
Euro medium term notes – five year bond	413	438
Euro medium term note – seven year bond	445	464
Euro medium term note – six year bond	496	521
Syndicated loan facilities	435	438
European Investment Bank loan	350	380
	<hr/>	<hr/>
	2,139	2,241

The Company has a short term financial liability in place with EE Finance Plc with a carrying value and fair value of £2,139 million.

The fair value of the liabilities is included at the amount which would be paid to transfer a liability in an orderly transaction between market participants at the balance sheet date. The following methods and assumptions were used to create the values:

- Cash and short term deposits, trade receivables, trade payables and other current liabilities approximate to their carrying value, largely because of their short term nature. Accordingly, they are excluded from the above table.
- Long term fixed rate borrowings are evaluated by the Group and the fair value for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates available to the Group.
- Fair value of quoted notes and bonds is based upon price quotations at the reporting date. The fair value of unquoted instruments, loans from banks, obligations under finance leases and other non-current financial liabilities is estimated by discounting cash flows based upon rates available for debt currently available on similar terms, credit risk and remaining maturities.

#### 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.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 26. Financial instruments (continued)

As at 31 December 2013 the Group held the following financial instruments carried at fair value in the statement of financial position:

<b>31 December 2013</b>	Level 1	Level 2	Level 3	Total
<b>Group and Company</b>	£m	£m	£m	£m
<b>Financial assets</b>				
Derivatives in effective hedges	-	49	-	49
<b>Financial liabilities</b>				
Foreign exchange rate forward contracts	-	(11)	-	(11)
<b>Total</b>	-	38	-	38
<hr/>				
<b>31 December 2012</b>	Level 1	Level 2	Level 3	Total
<b>Group and Company</b>	£m	£m	£m	£m
<b>Financial assets</b>				
Foreign exchange forward contracts	-	8	-	8
Derivatives in effective hedges	-	24	-	24
<b>Financial liabilities</b>				
Foreign exchange rate forward contracts	-	(4)	-	(4)
Derivatives in effective hedges	-	(7)	-	(7)
<b>Total</b>	-	21	-	21

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward currency contracts has been based upon discounted market forward currency exchange rates at the balance sheet date.

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

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 27. Provisions – Group and Company

	Onerous Leases £m	ARO £m	Network share and other £m	Total £m
At 31 December 2012	89	209	197	495
Increase in year	15	4	12	31
Decrease in year	(6)	(22)	(30)	(58)
Utilisation	(38)	(31)	(20)	(89)
Discount unwind	2	8	3	13
At 31 December 2013	<u>62</u>	<u>168</u>	<u>162</u>	<u>392</u>

Analysis of  
provisions by  
maturity:

At 31 December 2013

Short term	38	26	100	164
Long term	<u>24</u>	<u>142</u>	<u>62</u>	<u>228</u>
	<u>62</u>	<u>168</u>	<u>162</u>	<u>392</u>

At 31 December 2012

Short term	36	22	102	160
Long term	<u>53</u>	<u>187</u>	<u>95</u>	<u>335</u>
	<u>89</u>	<u>209</u>	<u>197</u>	<u>495</u>

#### Onerous lease provision

This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. The future obligations, for periods up to 10 years, under the lease contracts being the difference between rentals paid and the sub lease rentals received has been provided for at its net present value.

#### Asset Retirement Obligation (ARO)

The Group is required to dismantle equipment and restore sites and properties under operating leases. The ARO provision is based on the best estimate of the amount required to settle the obligation. It is discounted by applying a discount rate that reflects the passage of time. This estimate is revised annually and adjusted against the asset to which it relates, which is then subject to an impairment assessment. These costs are expected to be incurred over a period of up to 20 years.

This represents the liabilities arising from restructuring obligations relating to network share agreements, both before and after the combination of the T-Mobile and Orange businesses. The obligations involve both operational costs and vacant site rentals and have been discounted to present value. These costs are expected to be incurred over a period of up to 20 years.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 27. Provisions – Group and Company (continued)

#### Network share and other

Included are the costs of employee redundancy or one-off costs following restructuring within the Group. These costs are expected to be incurred within 12 months of recognition of the provision. Provisions for restructuring costs are recognised only when restructuring has been announced and the Group has started to implement a detailed formal plan.

The provision also includes an amount to cover ongoing legal disputes with other network operators. The directors, having taken legal advice have established provisions according to the facts of each case. The timing of cash flows associated with legal cases is uncertain. A Supreme Court order, issued in February 2013, granted BT leave to appeal in relation to some of the disputes and the provisions associated with them will be reassessed once the Court process is complete.

### 28. Pensions – Group and Company

#### Defined contribution pension scheme

The pension cost for the defined contribution scheme, which represents contributions payable by the Group, amounted to £18 million (2012: £14 million). Included in other creditors is £2 million (2012: £1 million) in respect of contributions payable to the scheme.

#### Defined benefit pension scheme

The following summarises the movement in the EE Pension Trustee Limited pension scheme (“the DB pension scheme”) – a defined benefit scheme – for the twelve months ended 31 December 2013. The DB pension scheme was established on 1 March 2000 with benefits based on final remuneration and length of service. Assets are held in separately administered trusts. A full actuarial valuation of the defined benefit scheme using the projected unit basis was carried out as at 31 December 2012 and updated to 31 December 2013 by actuaries AON Hewitt Associates Limited.

#### Profile of the Scheme

The defined benefit obligation includes benefits for current employees, former employees and current pensioners. Broadly, around 31% of the liabilities are attributable to current employees, 57% to former employees and 12% to current pensioners.

The Scheme duration is an indicator of the weighted-average time until benefit payments are made. For the Scheme as a whole, the duration is around 30 years reflecting the approximate split of the defined benefit obligation between current employees, deferred members and current pensioners.

The scheme is administered by a separate board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the employer and employees. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits.

#### Funding requirements

UK legislation requires that pension schemes are funded prudently. A funding valuation of the Scheme is currently being carried out by a qualified actuary as at 31 December 2012. The last funding valuation of the Scheme at 31 December 2009 showed a deficit of around £59 million.

The Company is currently paying deficit contributions of £9 million per annum which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 December 2015. The progress of the Scheme towards full-funding will be reviewed as part of the valuation that is currently underway.

The Company also currently pays contributions of 9.9% of pensionable salaries in respect of current accrual.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 28. Pensions – Group and Company (continued)

The Trustees are currently carrying out their actuarial valuation at 31 December 2012. The contributions payable by the Company may change following completion of that valuation.

The main financial assumptions used in the actuarial valuation of the pension scheme were as follows:

	31 December 2013 %	31 December 2012 %
Inflation assumptions - RPI	3.4	3.0
Inflation assumptions - CPI	2.5	2.3
Rate of increase in salaries	4.4	4.0
Rate of increase for pensions in payment – accrued pre 6 April 2006	3.3	2.9
Rate of increase for pensions in payment – accrued post 6 April 2006	2.2	2.1
Discount rate	4.7	4.8

The mortality assumptions used were as follows:

	31 December 2013 Years	31 December 2012 Years
Longevity at age 65 for current pensioners:		
- Men	22.9	22.7
- Women	24.0	23.5
Longevity at age 65 for future pensioners:		
- Men	25.2	25.0
- Women	26.4	25.9

Summary of scheme assets:

	31 December 2013 Value £m	31 December 2012 Value £m
<b>Investments quoted in active markets</b>		
UK equity and unit trusts	161	138
Hedge funds	25	22
Index linked gilts	-	78
Bonds	147	103
<b>Unquoted investments</b>		
Derivatives	29	-
Property	51	49
Cash	26	1
Fair value of the scheme assets	439	391
Present value of scheme obligations	(582)	(468)
Liability in the Group and Company statements of financial position	(143)	(77)

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 28. Pensions – Group and Company (continued)

Reconciliation of present value of scheme obligations:

	31 December 2013 £m	31 December 2012 £m
At 1 January	468	408
Current service cost	14	13
Interest cost	23	20
Benefits paid	(5)	(6)
Actuarial loss	82	33
	<hr/>	<hr/>
At 31 December	582	468

Reconciliation of fair value of scheme assets:

	31 December 2013 £m	31 December 2012 £m
At 1 January	391	356
Return on plan assets (excluding amounts included in net interest expense)	19	18
Actuarial gain	15	4
Benefits paid	(5)	(6)
Company contributions	19	19
	<hr/>	<hr/>
At 31 December	439	391

The scheme assets do not include any of the Group and Company's own financial instruments, or any property occupied by the Group.

The actual return on plan assets was a £34 million gain (2012: £23 million gain)

Movement in the deficit in the year:

	31 December 2013 £m	31 December 2012 £m
Opening deficit in the scheme at 1 January	(77)	(52)
Current year service cost	(14)	(13)
Contributions	19	19
Other finance (loss)	(4)	(3)
Actuarial (loss)	(67)	(28)
	<hr/>	<hr/>
Closing deficit in scheme at 31 December	(143)	(77)



# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 28. Pensions – Group and Company (continued)

The following amounts were recognised in the Group and Company's performance statements:

	Year ended 31 December 2013 £m	Year ended 31 December Restated 2012 £m
<b>Operating cost</b>		
Current service cost	14	13
Pension costs	14	13
<b>Financing cost</b>		
Interest on net defined benefit liability	4	3

Analysis of the amounts that are recognised in the Group and Company statements of comprehensive income:

	31 December 2013 £m	31 December 2012 Restated £m
Return on scheme assets excluding amounts recognised in interest income	15	5
Actuarial (losses) arising from changes in the financial assumptions	(51)	(19)
Actuarial (losses) arising from the changes in the demographic assumptions	(9)	(7)
Actuarial (losses) arising from experience	(22)	(7)
Actuarial (loss) recognised in the consolidated statement of comprehensive income	(67)	(28)

Under the current schedule of contributions the Group is expected to contribute £16 million to the scheme in the twelve months to 31 December 2014.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 28. Pensions – Group and Company (continued)

The effect of a 0.25% movement in the discount rate used of 4.7% would be as follows:

Discount rate	4.5%	5.0%
	£m	£m
Deficit in scheme at end of year	<u>186</u>	<u>102</u>

The effect of a 0.25% movement in the RPI and CPI inflation rate assumptions of 3.4% and 2.5% respectively would be as follows:

Inflation rate	Decrease	Increase
	£m	£m
Deficit in scheme at end of year	<u>105</u>	<u>180</u>

Following a one year increase in life expectancy there is a deficit in the scheme at the end of the year of £158m.

The sensitivity analyses above are limited as the movements described would not happen in isolation.

A deferred tax liability in respect of cumulative actuarial losses has been recognised in the consolidated statement of financial position. See Note 16.

The history of asset values, defined benefit obligation is as follows:

	2013 £m	2012 £m	2011 £m	2010 £m
Plan assets	439	391	356	322
Defined benefit obligations	<u>(582)</u>	<u>(468)</u>	<u>(408)</u>	<u>(365)</u>
Deficit	<u>(143)</u>	<u>(77)</u>	<u>(52)</u>	<u>(43)</u>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 29. Share capital and reserves

Movement in reserves is shown in the consolidated statement of changes in equity, together with the Company statement of changes in equity.

#### Share capital – Group and Company

	31 December 2013 £m	31 December 2012 £m
<b>Issued and fully paid</b>		
11,025,153 Ordinary 'A' shares of £1 each	11	11
11,025,153 Ordinary 'B' shares of £1 each	11	11
	<hr/>	<hr/>
	22	22
	<hr/>	<hr/>

#### Share premium account – Group and Company

On 23 March 2010 a special resolution was passed to reduce the share premium account at that time. On 24 March 2010 a share premium of £1,638 million was recognised, along with the issue of the £1 ordinary 'A' shares above.

#### Capital contribution reserve – Group and Company

The capital contribution reserve relates to a cash contribution from the shareholders without the issue of additional shares.

#### New basis reserve - Group

The new basis reserve arises on consolidation and includes all previously recognised retained earnings of the subsidiaries contributed to the Group as well the fair value adjustments made on formation of the new reporting entity as at 1 April 2010.

Further details on the New basis reserve have been disclosed in note 2.1.

#### Cash flow hedge reserve – Group and Company

The Group uses hedge accounting for its foreign currency transactions. The effective part of the hedged item is taken to the cash flow hedge reserve.

### 30. Dividends paid

<b>Group and Company</b>	Year ended 31 December 2013 £m	Year ended 31 December 2012 £m
Dividends declared and paid	458	734
	<hr/>	<hr/>
Dividend per share (£ / share)	£20.77	£33.29
	<hr/>	<hr/>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 31. Related party transactions Group and Company

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 years ended 31 December 2013 and 31 December 2012.

Group and Company		Sales to related parties	Purchases from related parties	Due to related parties	Due from related parties	Loans to/ (from) related parties	Accrued interest receivable / (payable)	Cash deposits with related parties
		£m	£m	£m	£m	£m	£m	£m
Orange	2013	45	128	45	38	-	-	181
	2012	13	153	53	26	-	-	340
Deutsche Telekom	2013	10	208	41	16	-	-	181
	2012	12	301	104	16	-	-	340
<b>Group</b>								
Associates	2013	-	12	-	-	-	-	-
	2012	-	-	-	-	-	-	-
Joint Ventures	2013	1	-	-	1	-	-	-
	2012	-	-	-	-	-	-	-
<b>Company</b>								
Associates	2013	-	12	-	-	-	-	-
	2012	-	-	-	-	-	-	-
Joint Ventures	2013	1	-	-	1	-	-	-
	2012	-	-	-	-	-	-	-
Subsidiaries	2013	-	-	-	-	(2,153)	(36)	-
	2012	-	-	-	-	(2,137)	(39)	-

### Key management personnel

The Directors of the Group are considered to be the only key management personnel. Disclosure of their compensation is given in note 12.

### Defined benefit pension scheme

Transactions with the defined benefit scheme EE Pension Trustee Limited are disclosed in note 28.

There were no material transactions with any other related parties.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 32. Capital and financial commitments

#### Finance leases – Group and Company

There are no material future minimum lease payments under finance leases and hire purchase contracts.

#### Operating leases – Group and Company

Future minimum rentals payable under non-cancellable operating leases are as follows:

	31 December 2013 £m	31 December 2012 £m
Not later than one year	239	265
After one year but not more than five years	721	871
After five years	455	474
	<hr/>	<hr/>
	1,415	1,610

Operating leases primarily relate to mast sites, office space and retail shops.

Lease payments for operating leases expensed in the year was £312 million (year ended 31 December 2012: £334 million).

#### Purchase commitments – Group and Company

The Group has £225 million of handset commitments (2012: £230 million).

#### Capital commitments – Group and Company

The Group has £142 million of capital commitments at 31 December 2013 (2012: £279 million).

The Group's share of the MBNL joint arrangement's capital commitments is £26 million (2012: £30 million).

The Company has capital commitments of £116 million at 31 December 2013.

#### Contingent liabilities

The Group had no significant contingent liabilities or guarantees at 31 December 2013 (2012: £nil).

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 33. Financial risk management, objectives and policies

The Group's principal non-derivative financial liabilities comprise loans and borrowings, and trade and other payables, all of which are used to finance operations. The Group has loan, trade and other receivables, and cash and short term deposits, derived from its operations. The Group also enters into derivative transactions.

These activities expose the Group primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

#### Market risk – Group and Company

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk includes three types of risk: interest rate risk, currency risk and other price risk such as equity. Financial instruments affected by market risk include loans and borrowings, deposits, and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December 2013 and 31 December 2012.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating rate interest rates and the proportion of financial instruments in foreign currencies are constant on the hedge designations in place at 31 December 2013 and 31 December 2012.

#### Interest rate risk – Group and Company

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is partly financed through long term loans from financial institutions at variable interest rates. The interest charged on these loans is linked to LIBOR. The Group also has cash assets at variable interest rates. A sensitivity analysis has been presented to demonstrate the impact of a reasonably possible change in the interest rates. With all other variables held constant, the Group's loss before tax and equity is affected through the impact on borrowing as follows:

	Change in interest rate	Effect on loss before tax £m	Effect on equity £m
31 December 2013	+1%	(4)	-
	-1%	4	-
31 December 2012	+1%	(4)	-
	-1%	4	-

In order to manage its interest rate risk, the Group has engaged in cross-currency interest swaps. Its interest rate swap portfolio is summarised in note 26.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 33. Financial risk management, objectives and policies (continued)

#### Financial liabilities and assets – Group and Company

The interest rate profiles of financial liabilities based on their nominal amounts were as follows:

	31 December 2013			31 December 2012		
	Fixed	Floating	Total	Fixed	Floating	Total
<b>Financial liabilities</b>	£m	£m	£m	£m	£m	£m
Sterling	800	438	1,238	800	438	1,238
Euro at year end rates	915	-	915	899	-	899
	<u>1,715</u>	<u>438</u>	<u>2,153</u>	<u>1,699</u>	<u>438</u>	<u>2,137</u>

Fixed rate borrowings had a weighted average interest rate of 3.394% at 31 December 2013 (2012: 3.396%) with the weighted average time for which rates are fixed being 4.23 years (2012: 5.23 years). Floating rate borrowings and cash deposit interest rates are based upon LIBOR.

	31 December 2013			31 December 2012		
	Floating	Non-interest bearing	Total	Floating	Non-interest bearing	Total
<b>Financial assets</b>	£m	£m	£m	£m	£m	£m
Sterling	362	61	423	680	166	846

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to operating activities when revenues and expenses are denominated in a currency other than the Group's functional currency.

As at 31 December 2013 the Group had £915 million (2012: £899 million) of long term loans designated in Euros. The foreign currency risk attached to these loans is managed using cross currency interest rate swaps. This is described under interest rate risk in note 26.

The Group mitigates its exposure to short term foreign currency risk by the treasury policy of hedging transactions that are expected to occur within a 12 month period.

Due to the policy of hedging foreign currency transactions for purchases of inventories for resale and capital equipment, there is minimal risk arising from foreign exchange.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 33. Financial risk management, objectives and policies (continued)

A sensitivity analysis of the Group's and the Company's exposure to foreign exchange risk is as follows:

	31 December 2013		31 December 2012	
	Income statement gain/(loss) £m	Effect on equity £m	Income statement gain/(loss) £m	Effect on equity £m
EUR strengthens +5% vs GBP	19	-	26	-
EUR weakens -5% vs GBP	(17)	-	(23)	-
USD strengthens +5% vs GBP	2	-	3	-
USD weakens -5% vs GBP	(2)	-	(3)	-

#### Equity price risk – Group and Company

The Group does not hold listed or unlisted equity securities except for associates and joint ventures as disclosed in note 19 and therefore there is minimal exposure to equity price risk.

#### Credit risk – Group and Company

Credit risk is the risk of loss resulting from counterparty default arising on all credit exposures. The Group is exposed to credit risk from its operating activities (primarily for trade receivables), and from financing activities including deposits with banks, foreign exchange transactions and other financial instruments.

The Group manages its credit risk by generally requiring that customers satisfy credit worthiness criteria. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed regularly.

Credit risk related to the derivatives held for trading that are fair valued through the consolidated income statement are subject to the maximum exposure amount shown in note 26 and in the liquidity table below.

The carrying amount of financial assets represents the maximum exposure to credit risk. The maximum exposure to credit risk at the reporting dates:

	31 December 2013 £m	31 December 2012 £m
Trade and other receivables	764	763
Cash at bank and in hand	423	846
Non-current loans	-	1

The disclosure regarding financial assets that are past due or impaired is given in note 21.



# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 33. Financial risk management, objectives and policies (continued)

#### Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due owing to insufficient financial resources. The Group manages liquidity risk through a combination of sourcing current funding requirements with long term financing arrangements from financial institutions and capital markets.

#### Group

The table below summarises the Group's financial liabilities at 31 December 2013 based on contractual undiscounted payments. Interest rates on variable rate loans have been based on the rates in effect at the year end.

At 31 December 2013	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years
	£m	£m	£m	£m	£m
Interest bearing loans and borrowings	-	63	554	1,359	470
Derivative financial instruments	-	44	6	(4)	-
Payments under onerous contracts undiscounted	-	38	13	5	6
Trade and other payables	-	1,923	-	-	-
	-	2,068	573	1,360	476
At 31 December 2012	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years
	£m	£m	£m	£m	£m
Interest bearing loans and borrowings	-	39	562	881	970
Derivative financial instruments	-	12	7	7	1
Payments under onerous contracts undiscounted	3	33	49	3	2
Trade and other payables	-	1,912	-	-	-
	3	1,996	618	891	973

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 33. Financial risk management, objectives and policies (continued)

#### Company

The Company's financial liabilities at 31 December 2013, based on contractual undiscounted payments. Interest rates on variable rate loans have been based on the rates in effect at the year end may be summarised as follows:

At 31 December 2013	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years
	£m	£m	£m	£m	£m
Interest bearing loans and borrowings	2,153	-	-	-	-
Derivative financial instruments	-	44	6	(4)	-
Payments under onerous contracts undiscounted	-	38	13	5	6
Trade and other payables	-	1,923	-	-	-
	<u>2,153</u>	<u>2,005</u>	<u>19</u>	<u>1</u>	<u>6</u>
At 31 December 2012	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years
	£m	£m	£m	£m	£m
Interest bearing loans and borrowings	2,137	-	-	-	-
Derivative financial instruments	-	12	7	7	1
Payments under onerous contracts undiscounted	3	33	49	3	2
Trade and other payables	-	1,912	-	-	-
	<u>2,140</u>	<u>1,957</u>	<u>56</u>	<u>10</u>	<u>3</u>

#### Capital management – Group and Company

The Group's capital comprises share capital, share premium, capital contributions and the new basis reserve less retained losses.

The Group has a financial policy to maintain a leverage ratio below 1.75 – 2.0 times Net Debt to EBITDA. The leverage ratio was 1.3 at 31 December 2013 (2012: 1.2). The Group's general dividend distribution policy is to pay to its shareholders 90% of organic cash flow (operational less investing cashflow).

#### Hedges

Details of the Group's cash flow hedging arrangements are included in note 26.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 34. Events after the balance sheet date.

#### Group and Company

There are no events noted.

### 35. Explanation of the Company's transition to IFRS

These are the Company's first financial statements prepared in accordance with IFRS as adopted by the EU. The Company reported under UK GAAP in its previously published financial statements for the year ended 31 December 2012.

The valuation of assets and liabilities in the Company's IFRS financial statements are in accordance with IFRS 1, Appendix D17, which when the timing of adoption of IFRS in an entity's separate and consolidated financial statements is different, requires a first time adopter to measure assets and liabilities on the same basis in both its consolidated and separate financial statements, except for consolidation adjustments.

A reconciliation of the net assets as reported under UK GAAP to the net assets under IFRS is set out in the following table for the year ended 31 December 2012. A similar reconciliation for 1 January 2012 is also provided.

No reconciliation of the profit or loss account or cash flow statement is provided because these were not previously disclosed under UK GAAP.

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 35. Explanation of the Company's transition to IFRS (continued)

	01 January 2012			31 December 2012			
Note	UK GAAP (IFRS format) £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP (IFRS format) £m	Effect of transition to IFRS £m	IFRS £m	
<b>Non-current assets</b>							
Intangible assets	(a)	4,380	(200)	4,180	3,896	(85)	3,811
Property, plant and equipment	(b)	2,631	(447)	2,184	2,395	(79)	2,316
Associates and joint ventures		10	(9)	1	13	(11)	2
Other financial assets		91	(90)	1	110	(109)	1
Deferred tax asset	(c)	408	207	615	429	113	542
Derivative financial instruments	(d)	-	-	-	-	24	24
Other non-current assets		48	-	48	25	-	25
<b>Total non-current assets</b>		<b>7,568</b>	<b>(539)</b>	<b>7,029</b>	<b>6,868</b>	<b>(147)</b>	<b>6,721</b>
<b>Current assets</b>							
Inventories		130	-	130	125	-	125
Trade and other receivables	(e)	1,275	(4)	1,271	1,197	(27)	1,170
Derivative financial instruments	(d)	-	-	-	-	8	8
Cash and cash equivalents		290	-	290	846	-	846
<b>Total current assets</b>		<b>1,695</b>	<b>(4)</b>	<b>1,691</b>	<b>2,168</b>	<b>(19)</b>	<b>2,149</b>
<b>Total assets</b>		<b>9,263</b>	<b>(543)</b>	<b>8,720</b>	<b>9,036</b>	<b>(166)</b>	<b>8,870</b>
<b>Current liabilities</b>							
Trade and other payables	(e)	(2,102)	(14)	(2,116)	(2,088)	(62)	(2,150)
Provisions		(192)	-	(192)	(160)	-	(160)
Other financial liabilities		(374)	-	(374)	(8)	-	(8)
Interest bearing loans and borrowings	(e)	(875)	5	(870)	(2,163)	41	(2,122)
Derivative financial instruments	(d)	-	(18)	(18)	-	(4)	(4)
Current income tax liability		(7)	-	(7)	-	-	-
<b>Total current liabilities</b>		<b>(3,550)</b>	<b>(27)</b>	<b>(3,577)</b>	<b>(4,419)</b>	<b>(25)</b>	<b>(4,444)</b>
<b>Non-current liabilities</b>							
Derivative financial instruments	(d)	-	-	-	-	(7)	(7)
Provisions		(363)	-	(363)	(335)	-	(335)
Pension liability	(f)	(39)	(13)	(52)	(59)	(18)	(77)
Other non-current liabilities		(34)	(1)	(35)	-	(3)	(3)
<b>Total non-current liabilities</b>		<b>(436)</b>	<b>(14)</b>	<b>(450)</b>	<b>(394)</b>	<b>(28)</b>	<b>(422)</b>
<b>Total liabilities</b>		<b>(3,986)</b>	<b>(41)</b>	<b>(4,027)</b>	<b>(4,813)</b>	<b>(53)</b>	<b>(4,866)</b>
<b>Total net assets</b>		<b>5,277</b>	<b>(584)</b>	<b>4,693</b>	<b>4,223</b>	<b>(219)</b>	<b>4,004</b>

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 35. Explanation of the Company's transition to IFRS (continued)

Note	01 January 2012			01 December 2012		
	UK GAAP (IFRS format) £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP (IFRS format) £m	Effect of transition to IFRS £m	IFRS £m
<b>Capital and reserves</b>						
Share capital	22	-	22	22	-	22
Share premium account	1,638	-	1,638	1,638	-	1,638
Capital contribution reserve	196	-	196	196	-	196
Cash flow hedge reserve	(d)	(14)	(14)	-	2	2
Retained earnings	(g)	(570)	2,851	2,367	(221)	2,146
<b>Total equity</b>	<b>5,277</b>	<b>(584)</b>	<b>4,693</b>	<b>4,223</b>	<b>(219)</b>	<b>4,004</b>

The following notes explain the significant adjustments on transition to IFRS:

- a) The reduction in the valuation of intangible assets reflects the application of IFRS1 Appendix D17 which requires a parent adopting IFRS in its parent company accounts later than in the consolidated accounts, to adopt IFRS on the same basis as the consolidated accounts (excluding consolidation adjustments). Thus a reduction in value, totalling £614 million in the opening IFRS Statement of Financial Position as at 1 January 2012 (31 December 2012: £464 million) was made to bring the intangible assets to the IFRS values (excluding consolidation adjustments). Additionally, as at 1 January 2012 software related items totalling £414 million (31 December 2012: £379 million) were reclassified from property, plant and equipment to intangibles, resulting in a net reduction in intangible assets as at 1 January 2012 of £200 million (31 December 2012: £85 million) as shown in the table above.
- b) The reduction of the valuation of property, plant and equipment reflects the reclassification of software related items to intangible assets as noted above (1 January 2012: £414 million; 31 December 2012: £379 million), together with an increase in value arising from the adoption of the consolidated accounts IFRS valuation of £159 million as at 1 January 2012 (31 December 2012: increase of £147 million). Additionally, property, plant and equipment relating to EE's share of MBNL tangible fixed assets have been incorporated following adoption of IFRS 10 and 11 of £126 million at 1 January 2012 (31 December 2012: £153 million) (see note (g)).
- c) The increase in the deferred tax assets reflects the effects of application of IFRS 1, Appendix D17 (as at 1 January 2012: £194 million; as at 31 December 2012: £95 million), as described above, together with the reallocation of the deferred tax asset relating to the pension fund (as at 1 January 2012: £13 million; as at 31 December 2012: £18 million). (See f below). This has resulted in a net increase of £207 million in opening deferred tax asset as at 1 January 2012 and £113 million as at 31 December 2012.
- d) Under UK GAAP, the Company elected not to value derivative financial instruments on the balance sheet, with gains and losses previously recognised in the UK GAAP Profit and Loss Account when contracts mature. Under IFRS derivative financial instruments are treated in accordance with IAS 39, with the valuation included in the statement of financial position and the movements in value of effective hedging transactions charged to a cash flow hedge reserve. This has resulted in the Company recognising current derivative financial instruments liabilities (1 January 2012: £18 million; 31 December 2012: £4 million), non-current derivative financial instruments liabilities (1 January 2012: £0 million; 31 December 2012: £7 million), associated non-current derivative financial instrument assets (1 January 2012: £0 million; 31 January 2012: £24 million) and associated current derivative financial instrument assets (1 January 2012: £0 million; 31 December 2012: £8 million).

# EE Limited

(Formerly Everything Everywhere Limited)

## Notes to the Financial Statements (continued)

### 35. Explanation of the Company's transition to IFRS (continued)

- e) Under UK GAAP, loans were stated at the fair value of the consideration received after deduction of issue costs. Under IFRS, interest bearing loans and borrowings are shown at amortised cost under IAS 39. This equates to the movement of £5 million as at 1 January 2012 and £41 million as at 31 December 2012 in interest bearing loans and borrowings to reclassify accrued interest from creditors and reclassify capitalised transaction costs to carrying amount of the loan. The adjustment also includes the effects of line by line accounting for a joint arrangement (MBNL) under IFRS compared with the previous accounting for this as an investment under UK GAAP. The effects of the above changes resulted in a £4 million reduction (31 December 2012: £27 million reduction) in trade and other receivables and a £14 million increase (31 December 2012: £62 million increase) in trade and other payables as at 1 January 2012.
- f) The increased valuation of the pension liability reflects the reclassification of the deferred tax asset relating to the pension liability. Under UK GAAP this was offset against the pension liability, whereas under IFRS it is shown within the deferred tax asset. This resulted in increases of £13 million and £18 million in the pensions liabilities and deferred tax asset (as noted above) as at 1 January 2012 and 31 December 2012 respectively.
- g) Under UK GAAP, the Company accounted for its investment in MBNL as the cost of investment and balances to and from MBNL were included in debtors and creditors. Following adoption of IFRS, and consequently adopting the suite of standards relating to joint arrangements (IFRS 10, 11 and 12), the Company has identified MBNL as a joint operation in accordance with the provisions of the standards. As a result, EE's share of the rights to assets and obligations of liabilities held within the joint arrangement have been consolidated on a line by line basis. This has had the impact of increasing property, plant and equipment (1 January 2012: £126 million; 31 December 2012: £153 million) and trade and other payables (as described in note (e) above), while reducing investments held in associates and joint ventures (1 January 2012: £9 million; 31 December 2012: £11 million), non-current loans receivable (1 January 2012: £90 million; 31 December 2012: £109 million) and trade and other receivables (as discussed in (e) above).
- h) The reduction in retained earnings primarily reflects the effects of IFRS 1, Appendix D17 as described above, together with the reduced depreciation of mobile telephony licences under IFRS as compared with UK GAAP, and adjusted depreciation and amortisation relating to other intangibles and property, plant and equipment arising from using the IFRS values compared to UK GAAP values of these assets.

### Reconciliation of Company Total Comprehensive Income – UK GAAP to IFRS

		31 December 2012		
		UK GAAP	Effect of transition to IFRS	IFRS
	Note	£m	£m	£m
Profit/(loss) for the year		(299)	349	50
Actuarial (loss) on defined benefit pension scheme		(28)	-	(28)
Cash flow hedges		-	21	21
Tax relating to Other comprehensive income	(d)	7	(5)	2
Other comprehensive income	(h)	(21)	16	(5)
<b>Total Comprehensive Income</b>		<b>(320)</b>	<b>365</b>	<b>45</b>