Company number: 02382161

EE Limited

Report and Financial Statements

For the period ended 31 March 2017

EE Limited

Contents

EE Limited

Directors and advisers

Directors

Marc Allera – appointed 29 January 2016
Stephen Harris – appointed 29 January 2016
Stephen Best – appointed 29 January 2016
Jeffrey Langlands – appointed 29 January 2016
Gareth Tipton – appointed 29 January 2016
John Watson – appointed 29 January 2016
Olaf Swantee – resigned 29 January 2016
Neal Milsom – resigned 29 January 2016
Gervais Pellissier – resigned 29 January 2016
Thomas Dannenfeldt – resigned 29 January 2016
Thorsten Langheim - resigned 29 January 2016
Arnaud Castille - resigned 29 January 2016

Secretary

James Blendis

Registered office

Trident Place
Mosquito Way
Hatfield
Hertfordshire
AL10 9BW

Independent Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

EE Limited

Strategic Report

The Directors present their strategic report for the period ended 31 March 2017.

Review of the business and future developments

The overall strategy of EE Limited ("EE" or "Company") is part of that of BT Group plc ("the Group"), which is outlined in the Group Strategy Review in the Group's Annual Report and Financial Statements for the year ended 31 March 2017, which does not form part of this report.

EE was acquired by BT Group plc on 29 January 2016. The Company will report a 15 month period ending 31 March 2017 following alignment of its accounting reference date to that of BT Group plc. EE has adopted the accounting policies of the Group and restated the prior year financial statements; see note 31 for the impact and quantification of the historic adjustments.

EE transitioned from EU IFRS to FRS 101 Reduced Disclosure Framework for the preparation of these financial statements. There were no measurement differences on transition to the new reporting framework.

Key financial performance indicators for EE include revenue and EBITDA. Other non-financial indicators include 4G coverage.

Revenue for the 15 month period was £8.0 billion (2015 12 month period: £6.3 billion) and EBITDA was £1.9 billion for the 15 month period (2015 12 month period: £1.6 billion). Revenue benefited from growing postpaid and fixed broadband revenues whilst prepaid revenues declined. Mobile revenue was also impacted by the regulation of mobile call termination, non-geographic number calling and EU roaming.

4G geographic coverage was 78% at 31 March 2017 (99% population coverage) and EE was again named as the best mobile network in the H2 2016 RootMetrics nationwide tests.

To improve customer satisfaction all EE customer service calls are now handled in UK and Ireland contact centres. In December 2015, EE was awarded a multi-year contract to provide the UK's Emergency Services 4G mobile communications network, starting in 2017.

An operating profit of £792 million (2015: £723 million) was incurred during the period.

The key aims for the year ahead are to remain the best UK mobile network, further improve customer service and deliver the EE element of the Emergency Services contract.

Financial position and liquidity

The Statement of Financial Position on pages 15 and 16 of the financial statements shows EE's overall financial position at the end of the period.

The net assets of the Company increased from £2,840 million at 31 December 2015 to £2,948 million at 31 March 2017, due to the profit for the year, less actuarial loss on pension scheme revaluation and dividends paid.

EE closed the year with cash of £30 million, with any excess balances loaned to the Group under cash clearing agreements. For further details of current and long term amounts payable and due from the parent and fellow subsidiary undertakings, see notes 18 to 20 of the financial statements.

Risk and uncertainties

The Company's business is directly impacted by a number of internal and external factors, including the regulatory environment and competitive marketplace in which it operates.

The Enterprise Risk Management framework provides reasonable (but cannot provide absolute) assurance that significant risks are identified and addressed. An active risk management process identifies, assesses, mitigates and reports on strategic, financial, operational and compliance risk.

Strategic Report (continued)

Risk and uncertainties (continued)

The principal themes of risk for the Company are:

- Movement and consolidation activity in the telecommunications market;
- Disruption to telecommunications networks, IT infrastructure and supply chain;
- The impact of regulation;
- Spectrum factors;
- Customer privacy and security of data; and
- Other financial risks.

Movement and consolidation activity in the telecommunications market

The Company operates in a highly competitive market place within the UK, where there is possible disruption by and consolidation between existing mobile network operators and other service providers seeking to strengthen their market position.

Disruptions to telecommunications networks, IT infrastructure or supply chain

The Company is dependent on the secure and stable operation of its telecommunications networks and IT infrastructure as well as the continued provision of critical equipment and services through its supply chain. Failures in infrastructure, either through incident, disaster or malicious attack, could lead to the loss of customer or commercially sensitive data, or reduced availability of systems or services which may be critical to operation and effectiveness. This could also result in damage to reputation, as well as a loss of revenue and customer confidence.

Supplier failures typically result in an increased cost and have the potential to adversely impact customer service and brand perception. If the Company were unable to find an alternative supplier, customer commitments could also be compromised, potentially leading to a loss of revenue or penalties.

The impact of regulation

The Company complies 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 and EU. Decisions by regulators can affect the business and operations and these effects can be adverse.

Spectrum factors

The Company ensures it acquires and maintains the right level and mix of spectrum through spectrum auctions, or after reallocations of spectrum by Ofcom. If EE fails to maintain the right level and mix of spectrum, this could negatively impact competitiveness in the medium to long term.

Customer privacy and security of data

The Company holds a large amount of private data, including sensitive customer information and payment card details, which enables it to interact efficiently and effectively with its customers, partners and suppliers. There is a threat that a large amount of sensitive data is stolen or lost which can result in regulatory fines, restitution costs, and lost business as well as significant damage to brand and reputation.

EE Limited

Strategic Report (continued)

Risk and uncertainties (continued)

Other financial risks

Further information on financial risk management is provided within the Directors' Report.

The Strategic Report was approved by the Board of Directors on 17 May 2017 and signed on its behalf by:

Marc Allera
Director

EE Limited

Directors' Report

The Directors present their report and the audited financial statements of the Company for the period ended 31 March 2017.

Subsequent to the acquisition of EE Limited by BT Group plc, the Company will report a 15 month period ending 31 March 2017, following alignment of its accounting reference date from 31 December to 31 March to that of BT Group plc.

Dividends

Dividends declared and paid during the period totalled £263 million (2015: £650 million). This was equivalent to £11.93 per share (2015: £29.48 per share).

Future developments

The future development of the business has been outlined in the Strategic Report.

Directors

The Directors, who held office during the period, 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 Company works actively with its suppliers in developing the standards for future mobile communication services and equipment.

First-time adoption of FRS 101

The Company's financial statements for the period ended 31 March 2017 are the first that the Company has prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS 101), which involves the application of International Financial Reporting Standards (IFRS) with a reduced level of disclosure. The Company transitioned from EU-adopted IFRS to FRS 101 for all periods presented.

Going concern

The Company's business activities, the factors likely to affect its future development and position, and the principal risks and uncertainties faced by the Company, 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 Company to continue as a going concern.

The Company is expected to continue to generate positive operating cash flows for the foreseeable future and has a number of financing arrangements in place, together with support from its ultimate parent (BT Group plc), that it is reliant upon to remain a going concern.

On the basis of the assessment of the Company's financial position, the Directors have a reasonable expectation that the Company 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 Company annual financial statements.

Events after the reporting period

No events noted.

Financial risk management

The Company follows the Group policy to manage its financial risks which include liquidity risk, market risk (interest rate management and foreign exchange management) and credit risk.

Credit risk is the risk of loss resulting from counterparty default arising on all credit exposures. The Company is exposed to credit risk from its operating activities (primarily for trade receivables), and foreign exchange transactions. The Company 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.

Directors' Report (continued)

Financial risk management (continued)

Further detail of the Group's policies can be found in the annual report and financial statements of BT Group plc, the ultimate parent undertaking, for the year ended 31 March 2017, which does not form part of this report.

Employee involvement

EE ensures employees under its direction and control are informed and involved in the business. Various communication methods were utilised during the period, including, regular face to face briefings and email updates from senior managers, EE's intranet site and regular meetings held between local management and their teams.

Splash is EE's social news network that's available to everyone in EE and is accessible on app, mobile web, tablet, laptop and retail tills. It's where employees find the latest Company news, management messages, and business area updates, along with community groups in an open social space. Splash is built around a set of bespoke social tools and was specially designed and developed for EE's business requirements to enable free-flowing conversations and collaborating as well as media-rich communications.

Employee feedback and opinion is also actively canvassed via employee opinion surveys known internally as Pulse. Structured engagement plans are developed after each survey, both at Company and functional level, as a means of continual enhancement of the process of informing, involving and engaging employees in the future. 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 Company's intranet.

EE has been listed as one of the Sunday Times Top 25 Best Big Companies to Work For in the UK for five years running. The survey is run annually by "Best Companies" and allows EE to benchmark itself across multiple sectors with companies of 5,000+ employees.

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 and it has established collaborative working partnerships with a number of membership organisations. At various points in time, these have included 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 Company.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

In 2016 EE achieved the Business Disability Silver Award for the first time reflecting all the work that has been done in this area by the Company. EE also achieved a highly commended status in the Disability Smart Awards in June 2016.

EE Limited

Directors' Report (continued)

Indemnification of Directors

In accordance with the Company's articles of association and to the extent permitted by law, the Directors may be granted an indemnity by the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the Directors may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the period and also at the date of approval.

Disclosure of information to the auditor

So far as each of the directors is aware, there is no relevant information that has not been disclosed to the auditors and each of the directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the auditors have been made aware of that information.

On behalf of the Board

Stephen Harris

Director

17 May 2017

Directors' statement of responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholder in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of EE Limited

Report on the financial statements

Our opinion

In our opinion, EE Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the 15 month period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of financial position as at 31 March 2017;
- the Income statement and Statement of comprehensive income for the period then ended;
- the Statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of EE Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' statement of responsibilities set out on page 10, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Charles van den Arend (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 May 2017

EE Limited

Income statement
For the period ended 31 March 2017

	Notes	15 months 31 March 2017 £m	12 months 31 December 2015 Restated £m
Revenue	5	**7,991**	**6,307**
External purchases	6	(5,284)	(3,992)
Other operating income	8	32	52
Other operating expense	8	(307)	(275)
Staff costs	9	(531)	(458)
Amortisation and depreciation	14,15	(1,107)	(907)
Restructuring expenses	11	(2)	(4)
Operating profit		**792**	**723**
Finance income	12	6	2
Finance expense	12	(148)	(91)
Finance costs net		(142)	(89)
Income/(loss) from associate / joint venture		1	(3)
Profit before tax		**651**	**631**
Income tax	13	(143)	(130)
Profit for the financial period		**508**	**501**

All results derive from continuing operations.

EE Limited

Statement of comprehensive income
For the period ended 31 March 2017

	Notes	15 months 31 March 2017 £m	12 months 31 December 2015 Restated £m
Profit for the financial period		**508**	**501**
Other comprehensive (loss)/income			
Items that may be subsequently reclassified to income statement			
Cash flow hedges			
- (Gain)/loss recycled through Income Statement in the period	21	(185)	72
- Fair value gain/(loss) arising in the period	21	167	(59)
- Deferred tax relating to cash flow hedges	13	6	(2)
		(12)	11
Items which will not be reclassified to income statement			
Actuarial (loss)/gain on defined benefit pension scheme	23	(150)	51
Deferred tax relating to defined benefit pension scheme	13	25	(13)
		(125)	38
Other comprehensive (loss)/income for the period		**(137)**	**49**
Total comprehensive income for the period		**371**	**550**

EE Limited

Statement of financial position

As at 31 March 2017

Company number: 02382161

	Notes	31 March 2017 £m	31 December 2015 Restated £m
Non-current assets			
Intangible assets	14	2,892	3,384
Property, plant and equipment	15	2,486	2,237
Investments	16	13	13
Deferred tax	13	187	299
Derivative financial instruments	21	48	-
Trade and other receivables	18	19	54
Total non-current assets		**5,645**	**5,987**
Current assets			
Inventories	17	100	69
Trade and other receivables	18	1,088	855
Derivative financial instruments	21	15	9
Other current assets	20	-	44
Cash and cash equivalents	20	30	388
Total current assets		**1,233**	**1,365**
Total assets		**6,878**	**7,352**
Current liabilities			
Trade and other payables	19	(2,187)	(2,074)
Interest bearing loans and borrowings	20	(342)	(2,042)
Derivative financial instruments	21	(13)	-
Provisions	22	(84)	(68)
Total current liabilities		**(2,626)**	**(4,184)**
Non-current liabilities			
Trade and other payables	19	(12)	(18)
Interest bearing loans and borrowings	20	(900)	-
Derivative financial instruments	21	(48)	(64)
Provisions	22	(119)	(151)
Pension liability	23	(225)	(95)
Total non-current liabilities		**(1,304)**	**(328)**
Total liabilities		**(3,930)**	**(4,512)**
Total net assets		**2,948**	**2,840**

Statement of financial position (continued)
As at 31 March 2017

	Notes	31 March 2017	31 December 2015 Restated
		£m	£m
Capital and reserves			
Share capital	24	22	22
Share premium account	24	1,638	1,638
Capital contribution reserve	24	196	196
Cash flow hedge reserve	24	4	16
Retained earnings		1,088	968
Total equity		**2,948**	**2,840**

The financial statements on pages 13 to 56 were approved and authorised for issue by the board of Directors on 17 May 2017 and were signed on its behalf by:

Stephen Harris
Director

EE Limited

Statement of changes in equity

For the period ended 31 March 2017

	Share capital £m	Share premium account £m	Capital contribution reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Total £m
At 31 December 2014	**22**	**1,638**	**196**	**1,215**	**5**	**3,076**
Change in accounting policy (Note 31)	-	-	-	(136)	-	(136)
At 31 December 2014 (restated)	**22**	**1,638**	**196**	**1,079**	**5**	**2,940**
Profit for the financial year	-	-	-	501	-	501
Actuarial gain on defined benefit pension scheme	-	-	-	51	-	51
Deferred tax relating to defined benefit pension scheme	-	-	-	(13)	-	(13)
Cash flow hedges						
Losses recycled through the Income Statement	-	-	-	-	72	72
Fair value loss arising in the year	-	-	-	-	(59)	(59)
Deferred tax relating to cash flow hedges	-	-	-	-	(2)	(2)
Total comprehensive income	-	-	-	539	11	550
Dividends declared and paid	-	-	-	(650)	-	(650)
At 31 December 2015	**22**	**1,638**	**196**	**968**	**16**	**2,840**
Profit for the financial year	-	-	-	508	-	508
Actuarial loss on defined benefit pension scheme	-	-	-	(150)	-	(150)
Deferred tax relating to defined benefit pension scheme	-	-	-	25	-	25
Cash flow hedges						
Gain recycled through the Income Statement	-	-	-	-	(185)	(185)
Fair value gain arising in the year	-	-	-	-	167	167
Deferred tax relating to cash flow hedges	-	-	-	-	6	6
Total comprehensive income / (expense)	-	-	-	383	(12)	371
Dividends declared and paid	-	-	-	(263)	-	(263)
At 31 March 2017	**22**	**1,638**	**196**	**1,088**	**4**	**2,948**

Notes to the Financial Statements

1. General information

The financial statements of the Company for the period ended 31 March 2017 were authorised for issue in accordance with a resolution of the Directors on 17 May 2017. The statement of financial position was signed on behalf of the board by Stephen Harris. 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.

2.1 Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and in accordance with the Companies Act 2006 except for the departure from the Companies Act in respect of non-amortisation of goodwill. The company does not amortise goodwill in accordance with the requirements of IFRS as applied under FRS 101. Instead an annual impairment test is performed and any impairment that is identified is recognised in the income statement. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations.

It is not possible to quantify the effect of the departure from the Companies Act, because a finite life for the goodwill has not been identified. However, the effect of amortising over a useful life of 10 years would be a charge of £80 million (2015: £64 million) against operating profit, and a reduction of £143 million (2015: £64 million) in the carrying value of goodwill in the balance sheet.

The Company transitioned from EU-adopted IFRS to FRS 101 for all periods presented. There were no material amendments on the adoption of FRS 101.

Subsequent to the acquisition of EE Limited by BT Group plc, the Company will report a 15 month period ending 31 March 2017, following alignment of its accounting reference date from 31 December to 31 March to that of the BT Group plc.

The financial statements have been prepared on a going concern basis under the historic cost convention as modified by the revaluation of derivative financial assets/liabilities measured at fair value through the income statement and in accordance with the Companies Act 2006. The preparation of financial statements in accordance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The Company's accounting policies have been aligned to those of BT Group plc which has resulted in prior period adjustments as quantified in note 31.

The Company meets the definition of a qualifying subsidiary under FRS 100. Accordingly, in the period ended 31 March 2017 the Company has undergone transition from reporting under EU-adopted IFRS to FRS 101 "Reduced Disclosure Framework". As required by FRS 101, the financial statements include comparative FRS 101 financial information for the period ended 31 March 2017. FRS 101 incorporates, with limited amendments, International Financial Reporting Standards (IFRS). The date of transition to FRS 101 was 1 January 2015.

The following disclosure exemptions available under FRS 101 have been applied:

a) the requirements of paragraphs 6 and 21 of IFRS 1 First-time adoption of IFRSs
b) the requirements of IFRS 7 Financial Instruments: Disclosures
c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
   (i) paragraph 79(a)(iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
   (iii) paragraph 118(e) of IAS 38 Intangible Assets;
e) the requirements of paragraphs 10(d), 10(f), 39(c), 40(a)-40(d), 111 and 134-136 of IAS 1 Presentation of Financial Statements;
f) the requirements of IAS 7 Statement of Cash Flows;

Notes to the Financial Statements (continued)

2.1 Basis of preparation (continued)

g) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
h) the requirements of paragraph 17 of IAS 24 Related Party Disclosures;
i) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
j) the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets

The company intends to continue to apply the disclosure exemptions allowable by FRS 101 for the foreseeable future. Where required, equivalent disclosures have been given in the consolidated financial statements of BT Group plc.

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

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group financial statements as it is a wholly owned subsidiary of British Telecommunications plc.

The results of British Telecommunications plc are included in the consolidated financial statements of BT Group plc which are available from 81 Newgate Street, London, EC1A 7AJ.

Going concern

The Company's business activities, the factors likely to affect its future development and position, and the principal risks and uncertainties faced by the Company, 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 Company to continue as a going concern.

The Company is expected to continue to generate positive operating cash flows for the foreseeable future and has a number of financing arrangements in place, together with support from its ultimate parent (BT Group plc), that it is reliant upon to remain a going concern.

On the basis of the assessment of the Company's financial position, the Directors have a reasonable expectation that the Company 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 Company annual financial statements.

Significant estimates and judgements

The preparation of the Company's 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

Depreciation and Amortisation of Assets

The Company has a number of tangible and intangible assets held on the statement of financial position. Such assets are held as assets under construction until such a time as they are fully constructed, brought into use and capable of operating in the manner as intended by management. The key judgement made by management is determining the timing of when the asset is brought into use and capable of operating in the manner as intended by management.

At this point, the assets are depreciated or amortised in line with their determined useful economic life. Details of the judgements and assumptions which form the basis of the Company's depreciation and amortisation policies are set out in notes 2.2.h) (Intangible Assets), 2.2.i) (Property, Plant and Equipment), and notes 14 and 15.

Notes to the Financial Statements (continued)

2.1 Basis of preparation (continued)

Significant estimates and judgements (continued)

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 Company's taxation position requires the Directors to make significant judgements.

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.

Estimates and assumptions

The Company based its estimates and assumptions on parameters available when the 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 Company. Such changes are reflected in the assumptions when they occur.

Provisions

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Company 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:

- 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 Company is required to dismantle equipment and restore sites and properties under operating leases. This estimate is revised annually. Estimation uncertainty arises as a result of assumptions surrounding future amounts required to settle obligations, discounted cash flows and the timing of exiting leasing arrangements.
- 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 Company. Estimation uncertainty arises as a result of the use of forecasts of both operational costs and vacant site rentals (which are long term in nature), discount factors used in net present value calculations and the timing of future cash flows. The Directors, having taken legal advice have established provisions according to the facts of each case.

Goodwill and intangible asset impairment

Goodwill is not ascribed a useful economic life, but, as required by IAS 36: Impairment of Assets, is subject to an annual impairment review which in turn is subject to management estimation.

Employee long-term 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 and mortality assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. Additional information is disclosed in note 23.

Notes to the Financial Statements (continued)

2.1 Basis of preparation (continued)

Significant estimates and judgements (continued)

Classification of Joint Arrangements

The Company holds interests in a number of joint arrangements, comprising both a joint operation and joint ventures.

Joint Operations

The Company's joint operation, Mobile Broadband Network Limited ("MBNL"), is structured through a separate incorporated company. The Company 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 Company 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.

On consideration of the facts and circumstances the Company has determined this arrangement to be classified as a joint operation.

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. Estimation uncertainties arise from assumptions on liquidity risk, credit risk and volatility.

2.2 Summary of significant accounting policies

a) Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred over the net fair value of the identifiable assets acquired 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 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.

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 of disposal and its value in use.

Fair value less costs of disposal 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.

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 management.

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

(b) Investments

The company holds investments defined as subsidiaries, associates and joint ventures.

Investments are recorded at cost.

c) Interests in Joint Arrangements

Companies that are controlled jointly by the Company and a limited number of other shareholders through a contractual arrangement are classified as 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 Company has assessed the nature of its joint arrangements and determined that it has both a joint operation and joint ventures.

(i) Interests in Joint Operations

The Company 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.

(ii) Interests in Joint Ventures

The Company reports its interests in joint ventures at cost, as described in 2.2 (b).

d) Foreign currency translation

The Company's financial statements are presented in British Pounds, which is also the functional currency of the company.

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 reporting date at the functional currency exchange rate as at that date and the resulting translation differences are recorded in the income statement.

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 income statement when the hedged item affects the income statement.

e) Revenue recognition

Revenue includes:

- amounts invoiced for airtime and related services supplied to subscribers (excluding airtime income billed in advance), 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

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

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

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

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

i) Separable components of packaged and bundled offers

Numerous service offers by the Company 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 Company evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting.

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.

ii) Equipment sales

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

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

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

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

- gross when the Company 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 Company's various communications systems (mobile, PC, etc.) are recognised:

- gross when the Company 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 Company 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.

iv) 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.

v) Business contracts

The Company offers customised solutions to its business customers in the form of technology and airtime funds. Technology funds are provided for when available to the customer and recognised as an expense immediately, the provision is subsequently released against eligible invoices. Airtime funds are expensed as the fund is matched against eligible invoices.

vi) 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.

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

vii) Penalties

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

If the Company 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.

viii) 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.

f) Advertising and related costs

Advertising, promotion, sponsoring, communication and brand marketing costs are charged to external purchases in the income statement as incurred.

g) Finance and operating leases

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.

Any lease arrangement that is not identified as a finance lease is classified as an operating lease. 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.

h) Intangible assets

On formation of EE, fair values were applied to all identifiable intangible assets, recognised in the statement of financial position.

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

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

h) Intangible assets (continued)

Spectrum – 2G & 3G

The fair value of the spectrum to operate mobile telephone networks determined on the formation of EE is amortised through the income statement on a straight-line basis from the formation of EE for the remaining spectrum period.

Spectrum – 4G

The Company acquired £620 million of additional (4G) spectrum in the year ended 31 December 2013. This intangible asset was first available for use in October 2014, due to requisite technologies first being deployed in the network. Amortisation of this intangible asset commenced upon the asset being available for use, and is charged through the income statement on a straight-line basis over the remaining term of the licence (until 2033).

Other – Software and research and development costs

The Company's research and development projects mainly concern:

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

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

h) 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 Company 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 Company 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.

i) Property, plant and equipment

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

Property, plant and equipment acquired or constructed subsequently 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 Company.

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 Company and Hutchison 3G UK Limited, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement, and the Company's share of the assets were initially recognised at fair value within tangible assets, and depreciated according to Company policy. Subsequent additions have been recognised at cost. For further information see note 15.

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

i) Property, plant and equipment (continued)

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.

j) 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.

k) 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.

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

k) 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 Company, 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 future cash flows against changes in currency value (cash flow hedge).

Derivative financial instruments and hedge accounting

The Company 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 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 Company formally documents and designates the hedge relationship for which the Company 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.

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 Company 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.

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

k) Financial assets and liabilities (continued)

Derivative financial instruments and hedge accounting (continued)

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.

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.

l) 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.

m) Provisions

A provision is recognised when the Company 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 Company'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 Company will discharge certain responsibilities.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Company 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.

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 Company'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.

n) Employee benefits

The Company 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 income statement when service is rendered.

Defined Benefit Scheme

This scheme was closed to future accrual from 30 June 2014.

The Company'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 reporting date on AA credit rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

n) Employee benefits (continued)

Defined Benefit Scheme (continued)

performed by a qualified actuary using the projected unit credit method. The net obligation recognised in the statement of financial position is the present value of the defined benefit obligation less the fair value of the scheme's assets.

The 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 statement of comprehensive income.

o) 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 reporting date.

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

p) Deferred taxes

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

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

- where the deferred tax asset or 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;
- in respect of deferred tax assets arising from deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, which 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.
- in respect of deferred tax liabilities arising from 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.

The carrying amount of the deferred tax assets is reviewed at each reporting 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 reporting 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 reporting date.

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

p) Deferred taxes (continued)

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

q) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand.

3. Segment Information

The Company 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. Operationally the Company 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.

4. EBITDA

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m
Profit before tax	651	631
Add back:		
Net finance costs	142	89
Amortisation and depreciation	1,107	907
(Income)/loss from associate / joint venture	(1)	3
EBITDA	1,899	1,630

EBITDA is not a defined financial measure defined by FRS 101 as a measurement of financial performance and may not be comparable to other similarly-titled indicators used by other companies. EBITDA is provided as additional information only and should not be considered as a substitute for operating profit or net cash provided by operating activities.

The Company's management believes that EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation, and share of profits (losses) of associates and joint ventures) is meaningful for investors because it provides an analysis of operating results and profitability using the same measures used by management. As a consequence, EBITDA is provided in addition to operating profit. EBITDA is a key measure of operating profitability used to i) implement investments and resource-allocation strategy, and ii) assess the performance of the management.

Notes to the Financial Statements (continued)

5. Revenue

Revenue by products and services:

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m Restated (Note 31)
Broadband, TV and convergence	344	259
Mobility	7,647	6,048
Total revenue	7,991	6,307

6. 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.

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m Restated (Note 31)
Commercial expenses	2,973	2,288
Service fees and inter-operator costs	1,108	946
Other network charges, IT charges	492	323
Other external purchases	711	435
Total external purchases	5,284	3,992

Notes to the Financial Statements (continued)

7. Auditors' remuneration

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company

	Period ended 31 March 2017 £'000	Year ended 31 December 2015 £'000
Audit of the financial statements	1,602	1,643

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group financial statements of its parent BT Group plc. The auditors' remuneration is borne by BT Group plc, a recharge of £1 million was made to EE Limited.

8. Other operating income/expense

Other operating income	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m
Other operating income	32	52
Total other operating income	32	52

Included in other operating income in the 12 month period ended 31 December 2015 was £20 million in relation to a contract amendment.

Other operating expense	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m
Property rates	84	71
Spectrum fees	82	31
Bad debt expense	50	60
Management and brand fees	91	105
Foreign exchange losses on trade payables	-	3
Loss on disposal of non-current assets	-	5
Total other operating expense	307	275

Notes to the Financial Statements (continued)

9. Employees

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

	Period ended 31 March 2017 No.	Year ended 31 December 2015 No. Restated
Operations	1,358	1,388
Selling and distribution	5,882	6,355
Customer care and administration	5,221	5,335
	12,461	13,078

The prior year employee numbers have been restated to include employees on maternity leave and long term illness.

The costs incurred in respect of these employees are:

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m Restated (Note 31)
Wages and salaries	504	427
Social security costs	53	48
Pension costs		
- Defined benefit	1	1
- Defined contribution	29	23
Own work capitalised (development costs)	(56)	(41)
Total employee cost	531	458

10. Directors' emoluments

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

	Period ended 31 March 2017 £'000	Year ended 31 December 2015 £'000
Remuneration	2,645	2,675
Pension costs	81	64
Amounts accrued under long term incentive schemes	8,374	3,364
Amounts accrued for compensation for loss of office	562	1,386
Total emoluments	11,662	7,489

Employer's National Insurance contributions in respect of key management personnel were £1,477,746 (2015: £1,022,463).

Notes to the Financial Statements (continued)

10. Directors' emoluments (continued)

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

	Period ended 31 March 2017 £'000	Year ended 31 December 2015 £'000
Total emoluments	5,749	6,314
Pension costs	11	41
	5,760	6,355

Retirement benefits in the form of defined contribution schemes are accruing for two directors at 31 March 2017 (31 December 2015: two).

The Directors Stephen Best, Jeffrey Langlands, Gareth Tipton and John Watson are employed by, and receive their emoluments from British Telecommunications plc. These Directors holding office during the year consider their services to the Company as incidental to their other duties within BT Group plc and accordingly no remuneration has been apportioned to the company.

11. Restructuring expenses

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m
Other	2	4
Total restructuring expenses	2	4

12. Finance income and expense

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m Restated (Note 31)
Finance income		
Finance income	1	1
Foreign exchange gains	5	1
Total finance income	6	2
Finance expense		
Finance costs (calculated using effective interest rate) on financial liabilities measured at amortised cost	(134)	(78)
Net pension interest cost	(6)	(6)
Unwinding of discount	(8)	(7)
Total finance expense	(148)	(91)

Notes to the Financial Statements (continued)

13. Taxation

(a) Income tax charged in the income statement

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m Restated (Note 31)
Current income tax:		
UK corporation tax	-	-
Adjustments in respect of previous periods	-	-
Total current income tax income	-	-
Deferred tax:		
Origination and reversal of temporary differences	141	143
Impact of tax rate change on deferred tax asset	1	-
Adjustments in respect of previous periods	1	(13)
Total deferred tax expense	143	130
Income tax expense in the income statement	143	130

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

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m
Deferred tax related to items charged or credited directly to the statement of comprehensive income:		
Deferred tax on actuarial (loss)/gain on pension liability	(25)	13
Deferred tax on cash flow hedges	(6)	2
Deferred tax (income)/expense in the statement of comprehensive income	(31)	15

Notes to the Financial Statements (continued)

13. Taxation (continued)

(c) Reconciliation of the total income tax expense

The tax expense in the income statement for the year is different than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are reconciled below:

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m Restated (Note 31)
Accounting profit before income tax	651	631
Accounting profit multiplied by the UK average standard rate of corporation tax of 20% (2015: 20.25%)	130	133
Non-deductible expenses	11	10
Impact of tax rate change on the deferred tax asset	1	-
Current income tax adjustments in respect of previous periods	-	-
Deferred tax adjustments in respect of previous periods	1	(13)
Total income tax expense at the effective tax rate of 20% (2015: 20.25%)	143	130

(d) Change in Corporation Tax rate

Announcements were made during 2016 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 17%, effective from 1 April 2020, was enacted on 6 September 2016.

Notes to the Financial Statements (continued)

13. Taxation (continued)

(e) Deferred tax asset/(liability)

The deferred tax in the statement of financial position, calculated using the appropriate prevailing corporate tax rate applicable in the period the deferred tax asset / (liability) is expected to reverse is as follows:

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m Restated (Note 31)
Deferred tax liability		
Accelerated tax depreciation	(53)	(49)
Cash flow hedges	-	(3)
	(53)	(52)

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m Restated (Note 31)
Deferred tax asset		
Trading tax losses	178	313
Pension scheme liabilities	37	16
Provisions deductible on a paid basis	22	22
Cash flow hedges	3	-
	240	351
Disclosed in the statement of financial position		
Net deferred tax asset	187	299

The Company offsets deferred tax assets and liabilities if and only if it has a legally enforceable right to set off 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 and Customs in the UK. The Company expects to be able to use the deferred tax asset against future profits.

Following BT's acquisition, there is a risk that the Company's tax losses might lapse retrospective to 5 February 2015 if it undergoes a major change in the nature or conduct of its business in the six year period ending 5 February 2018. If EE Limited's business were subject to a major change in the nature or conduct of trade on or before 5 February 2018, these losses would be forfeited and a current tax liability of £273 million would be created. Based on activities to date and current plans, and having taken external professional advice, the directors do not consider this outcome probable.

Notes to the Financial Statements (continued)

13. Taxation (continued)

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

Deferred tax in the income statement:

	Period ended 31 March 2017 £m	Year ended 31 December 2015 £m Restated (Note 31)
Accelerated capital allowances	4	3
Tax losses carried forward	135	120
Provisions	-	5
Pensions and post-employment medical benefits	4	2
Deferred tax (credit)/expense	143	130

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.

14. Intangible assets

	Goodwill £m	Spectrum £m	Software £m	Other £m	Total £m
Cost:					
At 31 December 2015	637	4,302	1,142	5	6,086
Additions	-	-	112	-	112
Disposals	-	-	(11)	-	(11)
At 31 March 2017	637	4,302	1,243	5	6,187
Amortisation:					
At 31 December 2015	-	(1,967)	(734)	(1)	(2,702)
Charge during the period	-	(460)	(137)	(2)	(599)
Disposals	-	-	6	-	6
At 31 March 2017	-	(2,427)	(865)	(3)	(3,295)
Net book value at 31 March 2017	637	1,875	378	2	2,892
Net book value at 31 December 2015	637	2,335	408	4	3,384

Impairment test for goodwill and intangible assets

No indicators of impairment were identified.

Fully amortised assets

Included above are fully amortised assets with an original cost of £627 million (2015: £554 million) which are still in use.

Notes to the Financial Statements (continued)

15. Property, plant and equipment

	Freehold land & buildings	Short term leasehold improvements	Network Restated (Note 31)	Fixtures & fittings Restated (Note 31)	Total
	£m	£m	£m	£m	£m
Cost:					
At 31 December 2015	51	142	3,648	145	3,986
Additions	-	-	740	21	761
Disposals	(5)	(4)	(68)	(11)	(88)
At 31 March 2017	46	138	4,320	155	4,659
Depreciation:					
At 31 December 2015	(10)	(92)	(1,564)	(83)	(1,749)
Charge during the period	(2)	(20)	(472)	(14)	(508)
Disposals	4	3	67	10	84
At 31 March 2017	(8)	(109)	(1,969)	(87)	(2,173)
Net book value at 31 March 2017	38	29	2,351	68	2,486
Net book value at 31 December 2015	41	50	2,084	62	2,237

The carrying value of plant and equipment held under finance leases at 31 March 2017 was £0 million (2015: £5 million).

Network Share Arrangement

The Company and Hutchison 3G UK Limited share a 3G network and the costs of backhaul and civil engineering for 4G rural sites. The Net Book Value of the Company's investment in this shared operation is £542 million at 31 March 2017 (restated 2015: £521 million) and is shown within network assets.

Included in network assets is £130 million (restated 2015: £122 million), which is the Company's share of MBNL network assets.

Fully depreciated assets

Included above are fully depreciated assets with an original cost of £638 million (2015: £249 million) which are still in use.

Assets under construction

As at 31 March 2017, included within Network assets are £615 million (2015: £232 million) of assets under construction. This includes assets located on both unilateral and shared network sites.

Notes to the Financial Statements (continued)

16. Investments

The companies in which the Company has an interest at the period-end are as follows:

Name	Country of incorporation	Principal activities	Shareholding	Registered address
EE Finance Plc	UK	Finance Company	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
Mainline Communications Group Limited	UK	Communication Distribution	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
Mainline Digital Communications Limited *	UK	Communication Distribution	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
Mobilise Telecoms Limited *	UK	Dormant	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
M-viron Limited *	UK	Dormant	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
Mainline Limited *	UK	Dormant	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
Orange Services India Private Limited	India	Management support	100%	Tower B, 7th Floor, Dlf Infinity Tower, Gurgaon, 12200-2 India
EE Communications (South Africa) Proprietary Limited	South Africa	Dormant	100%	24 18th Street Menlo Park Pretoria 0081
EE Pension Trustee Limited	UK	Pension Trustee	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
Orange FURBS Trustees Limited *	UK	Pension Trustee	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
Orange Personal Communications Services Limited	UK	Dormant	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
EE (Group) Limited *	UK	Dormant	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW

Notes to the Financial Statements (continued)

16. Investments (continued)

Name	Country of incorporation	Principal activities	Shareholding	Registered address
Orange Home UK Limited *	UK	Dormant	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
Everything Everywhere Limited	UK	Dormant	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
EE Services Limited	UK	Dormant	100%	Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW
Skeegle Holdings Limited	UK	In liquidation	100%	55 Baker Street, London, W1U 7EU
Skeegle App Limited*	UK	In liquidation	100%	55 Baker Street, London, W1U 7EU
Skeegle Operations Limited*	UK	In liquidation	100%	55 Baker Street, London, W1U 7EU
Mobile Broadband Network Limited	UK	Communication Distribution	50%	6 Anglo Office Park, 67 White Lion Road, Amersham, Buckinghamshire, HP7 9FB
Midland Communications Distribution Limited	UK	Communication Distribution	35%	Unit 1 Colwick Quays, Business Park Colwick, Nottingham, Nottinghamshire, NG4 2JY
Digital Mobile Spectrum Limited	UK	Corrective support for Freeview services affected by deployment of 4G (800 MHz)	25%	83 Baker Street, London, W1U 6AG

* Subsidiaries are held by subsidiary entities

The Company accounts for Mobile Broadband Network Limited as a joint operation, entitling partial consolidation. The remaining investments are held under historic cost.

All shareholdings are investments in ordinary shares.

	31 March 2017	31 December 2015
	£m	£m
Balance at the beginning of the year	13	19
Increase in investment in the year	-	2
Impairment in investment in the year	-	(5)
Disposal of investment in the year	-	(3)
Balance at the end of the year	13	13

Notes to the Financial Statements (continued)

17. Inventories

	31 March 2017 £m	31 December 2015 £m Restated (Note 31)
Inventories of handsets and accessories	100	69
Gross value	118	86
Provision for obsolescence	(18)	(17)
Total inventories at the lower of cost and net realisable value	100	69

There is no material difference between the balance sheet value of inventory and their replacement cost. The amount of inventory included within external purchases was £1,764 million (2015: £1,290 million). This includes write-downs on new inventory of £2 million (2015: £2 million).

18. Trade and other receivables

Current:	31 March 2017 £m	31 December 2015 £m
Trade receivables	629	691
Prepaid external purchases	207	154
Other receivables	2	10
Amounts owed by group undertakings	250	-
Total trade and other receivables	1,088	855

Non-current:	31 March 2017 £m	31 December 2015 £m
Other receivables	19	54

Trade receivables are stated after provisions for impairment of £72 million (2015: £96 million).

Notes to the Financial Statements (continued)

19. Trade and other payables

	31 March 2017 £m	31 December 2015 £m Restated (Note 31)
Current:		
Trade payables	1,499	1,524
Amounts owed to group undertakings	126	-
VAT payable	216	186
Other taxes	1	1
Employee related payables	52	67
Deferred income	282	250
Interest payable	1	35
Other	10	11
	2,187	2,074

	31 March 2017 £m	31 December 2015 £m
Non-current:		
Other	12	18

20. Borrowings and net financial debt

Current	31 March 2017 £m	31 December 2015 £m
Amount owed to group undertakings	292	2,042
Cash collateral received	50	-
Finance lease liability	-	4
Financial liabilities	342	2,046
Cash collateral paid	-	(44)
Cash & cash equivalents	(30)	(388)
	312	1,614
Non-current		
Amount owed to group undertakings	900	-
Net financial debt	1,212	1,614

Notes to the Financial Statements (continued)

21. Derivative Financial instruments

All the Company's financial assets and liabilities are held at amortised cost with the exception of derivative financial instruments which are held at fair value. The fair values of outstanding swaps and foreign exchange contracts are estimated using discounted cash flow models and market rates of interest and foreign exchange at the balance sheet date.

	31 March 2017 £m	31 December 2015 £m
Derivative assets		
Current		
Designated in a cash flow hedge	7	9
Other	8	-
Total current derivative assets	15	9
Non-current		
Designated in a cash flow hedge	-	-
Other	48	-
Total non-current derivative assets	48	-

	31 March 2017 £m	31 December 2015 £m
Derivative liabilities		
Current		
Designated in a cash flow hedge	(5)	-
Other	(8)	-
Total current derivative liabilities	(13)	-
Non-current		
Designated in a cash flow hedge	-	(64)
Other	(48)	-
Total non-current derivative liabilities	(48)	(64)

EE Limited

Notes to the Financial Statements (continued)

21. Derivative Financial instruments (continued)

Hedging activities

Derivatives may qualify as hedges for accounting purposes if they meet the criteria for designation as fair value hedges or cash flow hedges in accordance with IAS39.

Cash flow hedges

Instruments designated in a cash flow hedge included cross-currency swaps hedging Euro denominated borrowings. These were de-designated on 7 February 2017 when the Euro denominated borrowings were replaced with sterling denominated borrowings.

Forward exchange contracts hedging forecast foreign denominated purchases, denominated in US Dollar and Euro currencies 12 months forward have been designated as cash flow hedges. The related cash flows will be recognised in the income statement over this period.

All cash flow hedges were fully effective in the period.

Gains and losses associated with hedging activities are as follows:

	31 March 2017 £m	31 December 2015 £m
(Gain)/loss recycled through income statement	(185)	72
Gain/(loss) recognised in equity during the year	167	(59)
Deferred tax relating to cash flow hedges	6	(2)
	(12)	11

The losses recycled through the income statement have been taken through finance expense £3 million (2015: £43 million), external purchases gain £54 million (2015: £27 million loss) and other operating expense gain £134 million (2015: £2 million loss).

Other derivatives

The Company's policy is not to use derivatives for speculative purposes. However, due to the complex nature of hedge accounting under IAS39, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Derivative instruments that do not qualify for hedge accounting are classified as hedge for trading and hedge at fair value through profit and loss under IAS39.

Notes to the Financial Statements (continued)

22. Provisions

	Onerous Leases £m	ARO £m	Network share and other £m	Total £m
At 31 December 2015	55	98	66	219
Increase in period	52	5	7	64
Decrease in period	(15)	(5)	(3)	(23)
Utilisation	(38)	(9)	(18)	(65)
Discount unwind	2	4	2	8
At 31 March 2017	56	93	54	203

	Onerous Leases £m	ARO £m	Network share and other £m	Total £m
Analysis of provisions by maturity:				
At 31 March 2017				
Short term	30	30	24	84
Long term	26	63	30	119
	56	93	54	203
At 31 December 2015				
Short term	23	27	18	68
Long term	32	71	48	151
	55	98	66	219

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 20 years, under the lease contracts being the difference between rentals paid and the sub lease rentals received have been provided for at their net present value.

Asset Retirement Obligation (ARO)

The Company 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 50 years.

Network share and other

This represents future operational costs and vacant site rentals arising from restructuring obligations relating to network share agreements. The liabilities have been discounted to present value. These costs are expected to be incurred over a period of up to 15 years.

Also included are the costs of employee redundancy or one-off costs following restructuring within the Company. These costs are expected to be incurred within 12 months of recognition of the provision.

Notes to the Financial Statements (continued)

23. Pensions

The Company operates the EE Pension Scheme (EEPS), which has a final salary defined benefit section that was closed to future benefit accrual in 2014 and a defined contribution section which is open to new joiners. Assets are held in a separately administered trust.

The EEPS is administered by a separate board of trustee, EE Pension Trustee Limited, 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.

Defined contribution section

The pension cost for the defined contribution scheme, which represents contributions payable by the Company, amounted to £29 million (2015: £23 million). Included in other creditors is £4 million (2015: £2 million) in respect of contributions payable to the scheme.

Defined benefit section

The IAS 19 liabilities are measured as the present value of the estimated future benefit cash flows to be paid, calculated using the projected unit credit method. These calculations are performed by a professionally qualified independent actuary.

Profile of the Scheme

The estimated duration of the defined benefit liabilities, which is an indicator of the weighted average term of the liabilities, is around 30 years although the benefits are expected to be paid over more than 70 years. The majority of the liabilities relate to non-pensioners.

Amounts recognised on the balance sheet

The amounts recognised in the balance sheet are determined as follows:

	31 March 2017 £m	31 December 2015 £m
Value of assets	748	570
Present value of scheme liabilities	(973)	(665)
Deficit [a]	(225)	(95)
Net pension deficit	(225)	(95)

[a] There is no limiting effect of the asset ceiling as any accounting surplus is deemed to be recoverable due to the economic benefits available in the form of future refunds or reductions to future contributions.

Notes to the Financial Statements (continued)

23. Pensions (continued)

Key actuarial assumptions

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

	31 March 2017 %	31 December 2015 %
Discount rate	2.6	4.1
RPI inflation	3.2	3.1
CPI inflation	2.0[a]	2.2
Pension increases (accrued before 6 April 2006)	3.2	3.0
Pension increases (accrued after 6 April 2006)	2.5	2.2

[a] Assumed to be 0.5% higher until 31 March 2019

The discount rate assumption was set by applying projected benefit cash flows for a scheme with a similar profile to the EEPS to a corporate bond yield curve constructed based on the yield on AA rated corporate bonds.

The RPI inflation assumption was set by reference to a curve of forecast RPI inflation, applied to estimated cash flows for a scheme with a similar profile to the EEPS. CPI has been assessed at a margin below RPI taking into account market forecasts and independent estimates of the expected difference.

The mortality assumption uses the S2PA mortality tables, taking account of the scheme's experience through appropriate scaling factors, and future improvements based on a model published by UK actuarial profession's Continuous Mortality Investigation (by utilising the CMI 2014 Mortality Projections model with a 1.25% per year long-term improvement parameter).

Based on the IAS 19 longevity assumptions, the forecast life expectancies for EEPS members aged 65 are as follows:

	31 March 2017 Years	31 December 2015 Years
Current pensioners	23.3	22.5
Future pensioners (member age 40 today)	24.9	24.7

Asset allocation

The fair value of the assets of the Scheme analysed by asset category are shown below.

	31 March 2017 £m	31 December 2015 £m
A) Investments quoted in active markets		
Global equities	211	153
B) Unquoted investments		
Corporate bonds, derivatives and hedge funds	392	326
Property	143	84
C) Cash and cash equivalents	2	7
Total	**748**	**570**

Notes to the Financial Statements (continued)

23. Pensions (continued)

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

Movements in defined benefit plan assets and liabilities

The table below shows the movements on the plan assets and liabilities and shows where they are reflected in the financial statements.

£m	Assets	Liabilities	Deficit
At 1 January 2015	**542**	**(701)**	**(159)**
Operating cost: current service cost & PPF levy	-	(1)	(1)
Financing cost: Interest on net defined benefit liability	20	(26)	(6)
Included in the Company performance statements	**20**	**(27)**	**(7)**
Return on plan assets below the amount included in the group income statement	(5)	-	(5)
Actuarial gain arising from changes in financial assumptions	-	49	49
Actuarial gain arising from changes in demographic assumptions	-	7	7
Actuarial gain arising from experience adjustments	-	-	-
Included in the statement of comprehensive income	**(5)**	**56**	**51**
Deficit contributions by employer	20	-	20
Benefits paid	(7)	7	-
At 31 December 2015	**570**	**(665)**	**(95)**
Operating cost: current service cost & PPF levy	-	-	-
Financing cost: Interest on net defined benefit liability	28	(33)	(5)
Included in the Company performance statements	**28**	**(33)**	**(5)**
Return on plan assets above the amount included in the group income statement	138	-	138
Actuarial loss arising from changes in financial assumptions	-	(383)	(383)
Actuarial gain arising from changes in demographic assumptions	-	72	72
Actuarial gain arising from experience adjustments	-	23	23
Included in the statement of comprehensive income	**138**	**(288)**	**(150)**
Deficit contributions by employer	25	-	25
Benefits paid	(13)	13	-
At 31 March 2017	**748**	**(973)**	**(225)**

Risk exposure from the EEPS

The assumptions on the discount rate, inflation and life expectancy all have a significant effect on the measurement of the scheme liabilities. The table below provides an indication of the sensitivity of the IAS 19 pension liabilities at 31 March 2017:

	(Increase)/Decrease in liabilities £m
1% fall in discount rate	(350)
1% fall in RPI inflation only	120
1% fall in CPI inflation only	145
One year increase to life expectancy	(30)

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

Notes to the Financial Statements (continued)

23. Pensions (continued)

EEPS funding

The triennial valuation is carried out for the trustees by a professionally qualified independent actuary. The purpose of the valuation is to design a funding plan to ensure that the EEPS has sufficient funds available to meet future benefit payments.

The latest funding valuation was performed as at 31 December 2015, and agreed in March 2017. This showed a funding deficit of £141 million.

The valuation methodology for funding purposes, which is based on prudent assumptions, is broadly as follows:

- assets are valued at market value at the valuation date; and
- liabilities are measured on a prudent actuarial funding basis using the projected unit credit method and discounted to their present value.

The Company will contribute £1.7 million each month until March 2018 (inclusive) and £1.9 million each month thereafter until November 2020 to fund the deficit.

The next funding valuation will have an effective date of no later than 31 December 2018.

24. Share capital and reserves

Movement in reserves is shown in the statement of changes in equity.

Share capital

	31 March 2017 £m	31 December 2015 £m
Issued and fully paid		
22,050,306 Ordinary shares of £1 each	22	-
11,025,153 Ordinary 'A' shares of £1 each	-	11
11,025,153 Ordinary 'B' shares of £1 each	-	11
	22	22

During February 2016 the ordinary A and ordinary B shares were re-designated as ordinary shares, which carry equal voting rights and no contractual right to receive payment.

Share premium account

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.

Capital contribution reserve

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

Cash flow hedge reserve

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

EE Limited

Notes to the Financial Statements (continued)

25. Dividends paid

	Period ended 31 March 2017	Year ended 31 December 2015
	£m	£m
Dividends declared and paid	263	650
Dividend per share (£ / share)	£11.93	£29.48

26. Capital and financial commitments

Finance leases

Future minimum lease payments under finance leases and hire purchase contracts are as follows:

	31 March 2017	31 December 2015
	£m	£m
Not later than one year	-	2
After one year but not more than five years	-	2
After five years	-	-
	-	4

The present value of minimum lease payments is analysed as follows:

	31 March 2017	31 December 2015
	£m	£m
Not later than one year	-	2
After one year but not more than five years	-	2
After five years	-	-
	-	4

Operating leases

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

	31 March 2017	31 December 2015
	£m	£m
Not later than one year	236	240
After one year but not more than five years	618	679
After five years	297	329
	1,151	1,248

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

Lease payments for operating leases expensed in the period was £355 million (year ended 31 December 2015: £282 million).

Purchase commitments

The Company has £398 million of device commitments (2015: £252 million).

Notes to the Financial Statements (continued)

26. Capital and financial commitments (continued)

Capital commitments

The Company has £411 million of capital commitments at 31 March 2017 (2015: £437 million), including its share of the MBNL joint arrangement's capital commitments of £19 million (2015: £27 million).

Other commitments

The Company has £283 million of service commitment at 31 March 2017 (2015: £532 million).

Contingent liabilities

Phones 4U

In December 2016 the administrators of Phones 4U Limited (P4U) started legal proceedings in the High Court in the United Kingdom against the Company, claiming £66 million in payments under a retail trading agreement, which relate to a revenue share for certain customers prior to P4U's insolvency. The Company is contesting these claims and have brought counter-claims against P4U, including damages arising from P4U ceasing trading.

The administrators have also indicated an intention to start separate High Court proceedings, alleging the Company and other mobile network operators colluded to procure P4U's insolvency. The Company also dispute these allegations.

Hutchison 3G Limited

In May 2016 Hutchison 3G Limited (H3G) brought legal proceedings in the High Court in the United Kingdom against the Company, alleging breach of contract relating to alleged delays in the roll out of certain free carrier coverage to H3G. H3G is entitled to this free carrier coverage under arrangements agreed following the merger of Orange and T-Mobile, predecessors of the Company. The litigation is also at a relatively early stage and the Company is contesting the claims. H3G claims damages relating to loss of business of £167 million, although the Company disputes that there is a basis for the claim and the substantiation of the claimed damages.

27. Events after the reporting period

No events noted.

28. Ultimate Parent Undertaking

The immediate parent undertaking is British Telecommunications Plc (UK), a company incorporated in England & Wales.

The ultimate parent company and controlling party is BT Group Plc (UK), a company incorporated in England & Wales. BT Group Plc is the parent of the largest and BT plc is the parent of the smallest group to consolidate these financial statements. The consolidated financial statements of the ultimate parent company BT Group Plc, are available on the group website, www.btplc.com or from the Company Secretary at the registered office, 81 Newgate Street, London, EC1A 7AJ.

29. Transition to FRS 101

This is the first year that the Company has presented results under FRS101. The last financial statements under IFRS were for the year ended 31 December 2015, with the date of transition being 1 January 2015. The Company is included in the consolidated financial statements of BT Group Plc.

A reconciliation of profit for the financial year ended 31 December 2015 and the total equity as at 1 January 2015 and 31 December 2015 between IFRS, as previously reported, and FRS 101 is not required as there were no material recognition or measurement differences.

Notes to the Financial Statements (continued)

30. Related party transactions

During the period the Company received income of £0 million (2015: £15 million) and incurred expenditure of £5 million (2015: £82 million) with Orange S.A, joint parent (50%) of EE Limited for the period 1 January 2016 to 29 January 2016.

During the period the Company received income of £0 million (£2015: £11 million) and incurred expenditure of £14 million (2015: £158 million), with Deutsche Telekom A.G., joint parent (50%) of EE Limited for the period 1 January 2016 to 29 January 2016.

During the period the Company received income of £4 million (2015: £4 million) and incurred expenditure of £44 million (2015: £45 million) with MBNL, a joint operation 50% owned by EE Limited. At the period-end £10 million (2015: £10 million) was outstanding and £19 million (2015: £26 million) was due from MBNL. In addition the Company has issued a Shareholder loan facility of £151 million (2015: £151 million). The receivable is unsecured and no guarantees have been received.

During the period the Company received income of £9 million (2015: £6 million) and incurred expenditure of £22 million (2015: £21 million) with Midland Communications Distribution Limited, a 35% joint venture. At the period-end £1 million (2015: £0 million) was outstanding and £1 million (2015: £1 million) was due from Midland Communications Distribution Limited. The receivable is unsecured and no guarantees have been received.

During the period the Company incurred expenditure of £2 million (2015: £2 million) with Digital Mobile Spectrum Limited, a 25% associate.

Notes to the Financial Statements (continued)

31. Change in accounting policy

During the period, the Company aligned its accounting policies to that of BT Group plc, the ultimate parent company.

EE offers technology and airtime funds as incentives to business customers. The accounting policy has been aligned to recognise the fund in the income statement immediately, previously the funds were deferred and recognised over the contract term.

Equipment and leased line connection fees have historically been capitalised as PPE upon dispatch / connection, the accounting policies have been aligned to recognise cost through the income statement upon dispatch / connection.

Prepayments in relation to network maintenance are recognised as operating costs under BT Group plc accounting policy.

The impact of the voluntary changes in accounting policies on each line item of the primary financial statements is shown in the table below:

	As reported			Adjustments			Restated		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
	12 months to 31 December	12 months to 31 December	12 months to 31 December	12 months to 31 December	12 months to 31 December	12 months to 31 December	12 months to 31 December	12 months to 31 December	12 months to 31 December
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	6,311	6,327	6,482	(4)	(12)	(10)	6,307	6,315	6,472
External purchases	(3,954)	(4,160)	(4,309)	(38)	(26)	(27)	(3,992)	(4,186)	(4,336)
Amortisation and Depreciation	(935)	(916)	(934)	28	20	16	(907)	(896)	(918)
Profit/(loss)	512	-	175	(11)	(18)	(21)	501	(18)	154
Property, Plant and Equipment	2,346	2,337	2,313	(109)	(96)	(90)	2,237	2,241	2,223
Deferred tax asset	268	417	425	31	28	24	299	445	449
Inventories	66	76	85	3	0	0	69	76	85
Trade and other receivables	928	994	1,147	(73)	(71)	(42)	855	923	1,105
Trade and other payables	(2,075)	(2,234)	(2,152)	1	3	1	(2,074)	(2,231)	(2,151)
Retained earnings	1,115	1,215	1,809	(147)	(136)	(107)	968	1,079	1,702