

Company number: 2382161

**EE Limited**  
**Annual Report**  
**Group and Company Financial Statements**  
**Year ended 31 December 2014**

# EE Limited

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# EE Limited

## Directors and advisers

### Directors

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

### Secretary

James Blendis

### Registered office

Trident Place  
Mosquito Way  
Hatfield  
Hertfordshire  
AL10 9BW

### Auditors

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

# EE Limited

## Strategic Report

### Introduction

EE Limited (“EE” or “the Group”) is the UK’s largest mobile communications provider with 30.9 million connections (2013: 30.8 million) and mobile subscriber estimated market share of 32% (2013: 33%) (source: Enders Analysis). The Group, which operates exclusively in the UK, runs three of the country’s most famous brands – EE, Orange and T-Mobile. It offers mobile services (consisting of voice, messaging and data services) and fixed voice and broadband services to both retail and business customers through multiple telecommunications technologies. It was the first UK mobile network operator to launch a 4G network, introducing superfast consumer and business tariffs on the EE brand. The EE network provides customers with the widest and fastest 4G coverage in the UK (Ofcom).

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

On 15 December 2014, DT and Orange entered into exclusive negotiations with BT Group plc to sell EE, based on an enterprise value of £12.5 billion. The sale process was still ongoing when this Annual Report was finalised.

### Strategy

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

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

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

### Operating Review

During 2014, EE delivered on its strategy to transform the Group into a clear market leader. EE provided customers with the best network with the widest 4G coverage, an improved customer interface with a strong brand and retail estate. EE continued to effectively monetise 4G as the range of 4G tariffs was extended to lower price points, increasing the addressable market. Against a backdrop of competitor 4G launches, price competition and continued regulation EE delivered good financial results, including growing the adjusted EBITDA (see note 6 for details) margin to 25.1% and achieving the target set in 2010. A key distribution channel, Phones 4U Limited (“Phones 4U”), went into administration in September 2014. This triggered a number of events including EE acquiring 58 former Phones 4U shops and the Mobile Virtual Network Operator (MVNO), Life Mobile, and the accelerated recognition of prepaid costs within 2014 results. The impact of losing this distribution channel has been mitigated by greater use of the Group’s own channels and other indirect distributors.

#### **Customers: Adding and retaining postpaid customers**

Over the year, EE added 551,000 net postpaid customers (2013: 756,000), increasing the postpaid proportion of the customer base (excluding machine-to-machine) to 61%. The prepaid customer base reduced by 8% in line with the industry shift towards postpaid. In the year EE acquired the postpaid customer base (71,000 connections) of the former Phones 4U MVNO, Life Mobile, following Phones 4U going into administration. The 4G base reached 7.7 million, with an increase of 5.7 million customers in the year, supported by price range extension, success of EE branded devices (such as the Kestrel handset and Eagle tablet) and 4G Shared and prepaid plans. Business adoption of 4G remains strong with 7,039 corporates on 4G. EE has 31 MVNO

# EE Limited

## Strategic Report (continued)

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

partners, including signing BT and The Post Office during the year. The machine-to-machine (“M2M”) business grew rapidly in the year, with the base up 17% year on year to 1.9 million connections. By the end of 2014 EE had 30.9 million network connections (2013: 30.8 million), including MVNO and M2M subscribers.

Churn, a measure of the rate of customers leaving, was 1.2% per month for postpaid mobile customers in 2014 (2013: 1.1%), and 2.1% per month for total mobile customers in 2014 (2013: 2.6%).

Average revenue per user (“ARPU”) was £28.9 per month for postpaid mobile customers in 2014 (2013: £29.9 per month). At a total mobile level, combining post and prepaid customers, ARPU increased 2.7% year on year (excluding the impact of regulation) to £19.0 as the ratio of postpaid to prepaid customers increased.

EE will continue to leverage the network capacity to maximise connections on the network. EE also introduced 4G+, delivering 4G network speeds of up to 150Mbps to central London, underscoring EE’s lead in network innovation, capacity and speed.

Fixed broadband grew strongly in the year, adding 108,000 customers, and also launched EE TV, an innovative TV smart box with an intuitive smartphone user interface and multi record, multi-screen functionality.

### Company: Optimising operations

EE made continued progress on the network, retail and indirect optimisation programmes. The Group has decommissioned 7,865 redundant network sites since the inception of the programme, and ended the year with a retail estate of 580 shops (2013: 600) following the acquisition of 58 former Phones 4U stores in October 2014.

### Outlook: Effectively monetising the data opportunity

EE has made good progress in strengthening and monetising the Group’s network leadership. Following a spectrum auction in 2013, the Group secured the UK’s best spectrum portfolio for mobile data services, with an industry-leading 36% share. Leveraging this advantage and the £1.5 billion multi-year investment focussing on new 2G/4G equipment and backhaul, EE are the only UK network providing double speed 4G and greater capacity across 50% of the UK population. By January 2015, EE covered 510 towns and cities and 81% of the population with 4G. Independent benchmarking by RootMetrics ranked EE number one for overall performance of any UK network in 2014. This was corroborated when Ofcom also ranked EE number one for mobile broadband, following independent testing in the first half of 2014, and independent testing by P3 ranked EE overall number one operator in November 2014.

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

### Corporate Responsibility

With EE’s vision to deliver the best network and the best service to ensure our customers trust us with their digital lives, stakeholder trust is at the core of our corporate responsibility plan. The Group has a comprehensive issue management system that identifies and addresses key business sustainability risk areas such as child safety, supply chain and environmental impact. The Group also invests in our communities, working with the charity Go ON UK to help improve the digital skills of 1 million people through Techy Tea Parties and offering a range of print and online resources as well as skills-based customer service. The Group has addressed youth unemployment by bringing almost 800 apprentices into the business in the last 15 months, with a target of 1,300 by the end of 2015. This scheme also received an award in the Deputy Prime Minister’s Opening Doors awards and was overall winner in the Business in the Community ‘Inspiring Young Talent’ category in 2014.

# EE Limited

## Strategic Report (continued)

### Results and financial position

The key performance indicators for the Group are revenue, EBITDA and adjusted EBITDA. Group revenue for the year was £6.3 billion (2013: £6.5 billion), a 2.4% decline, with the impact of regulatory rate cuts and prepaid decline partially offset by growth in the postpaid customer base and Home and wholesale divisions. Adjusted EBITDA, which excludes restructuring and one-off costs, brand and management fees, was £1,589 million (2013: £1,574 million).

Following Phones 4U Limited entering Administration and EE's subsequent termination of its agreements in September 2014, there has been an accelerated recognition of £336 million prepaid customer investment costs for future services to be delivered by Phones 4U which would have previously been expensed over future periods. This exceptional, non-cash transaction, has been treated as a one-off item in the full year 2014 results.

During the year the EE Defined Benefit pension scheme was closed to future accrual, resulting in the pension liability being reduced by £28 million and the curtailment revaluation arising has been recognised in the Income Statement in the period.

The loss after tax for the year ended 31 December 2014 was £217 million (2013: £76 million) and has been deducted from reserves. Detailed results for the year are shown in the income statement on page 15.

Dividends declared and paid during the year totalled £551 million (2013: £458 million). This was equivalent to £24.99 per share (2013: £20.77 per share).

The net assets of the Group decreased from £9,733 million at 31 December 2013 to £8,921 million at 31 December 2014, due to the loss for the year, actuarial loss on pension scheme revaluation and dividends paid.

A significant source of liquidity for the Group comes from cash generated from trading activities, net cash provided by operating activities in the year was £1,188 million (2013: £1,201 million).

During the year the Group continued its capital expenditure programmes. Total expenditure on tangible fixed assets was £475 million (2013: £464 million).

On 18 December 2014 the Group and the other three UK mobile operators reached an agreement with the UK Government to each provide 90% geographic coverage for voice and text by 2017.

The Company had net assets as at 31 December 2014 of £3,076 million (2013: £3,671 million).

Since the reporting date, the Group has now reached a confidential agreement with one operator regarding its claims in relation to the non-geographic number dispute, which is taken into account within the established provisions.

### Capital Structure

At the end of the year, the leverage ratio was 1.64x Net Debt to EBITDA, consistent with the financial policy of maintaining, in the medium term, a leverage ratio of below 1.75-2.00x.

Long-term funding for the Group is provided by Euro and Sterling denominated bonds issued by EE Finance plc under its Euro Medium Term Note programme, together with a sterling denominated bank facility provided by a consortium of Banks and a European Investment Bank Loan. The Group is exposed to Euro denominated interest rate payments on its Euro bonds; these interest obligations have been swapped to Sterling by entering into cross currency interest rate swaps as detailed further in Note 32 to the accounts.

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

### Risk and uncertainties

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

# EE Limited

## Strategic Report (continued)

### Risk and uncertainties (continued)

The Group's Risk Governance framework provides 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.

The principal themes of risk for the Group are:

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

#### The impact of regulation

##### *Risk*

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

##### *Impact*

There are several regulations that are having or will have an impact on the Group of which the most significant include regulations to eliminate roaming charges for calls within the EU, the UK's implementation of the EU Consumer Rights Directive, regulation imposing various conditions on mobile termination charges, and new arrangements for the way calls to non-geographic number ranges (e.g. 084, 09 and 118) are charged.

##### *Mitigation*

The Group has a team of regulatory specialists who, together with external advisors, monitor and review the scope for regulatory changes and potential future disputes. This team works with the relevant regulatory bodies to represent the Group's interests and those of its customers and to drive for fair and proportionate regulation. The Group is also able to appeal any regulatory decisions where it believes errors have been made.

#### Customer privacy and security of data

##### *Risk*

The Group holds a large amount of private data, including sensitive customer information and payment card details, that enables it to interact efficiently and effectively with its customers, partners and suppliers. The threat is that a large amount of sensitive data is stolen or lost.

##### *Impact*

Incidents of data loss can result in regulatory fines, restitution costs, and lost business as well as significant damage to the Group's brand and reputation.

##### *Mitigation*

The Group has an effective Governance structure in place to direct and steer the management of customer data. A compliance framework, projects to identify unusual activity relating to data, and training for all employees have been delivered to ensure that it is compliant with the requirements when handling and treating sensitive information.

Insurance policies are in place to compensate for direct financial losses and there are contractual remedies from 3<sup>rd</sup> parties who handle data for the Group.

#### Disruptions to telecommunications networks, IT infrastructure or supply chain

##### *Risk*

The Group is dependent on the secure and stable operation of its telecommunications networks

# EE Limited

## Strategic Report (continued)

### Risk and uncertainties (continued)

and IT infrastructure as well as the continued provision of critical equipment and services through its supply chain.

#### *Impact*

Failures in the Group's 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 the operation and effectiveness of the Group. 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 Group were unable to find an alternative supplier, customer commitments could also be compromised, potentially leading to contractual breach, loss of revenue or penalties.

#### *Mitigation*

The Group attempts to mitigate the threat of malicious attack by employing measures including comprehensive monitoring of the telecommunications networks, backup systems and protective systems such as firewalls, virus scanners, and building security. Crisis and incident management processes are in place to manage and mitigate disaster events and other outages that occur.

The Group's sourcing strategy includes supplier risk analysis and it regularly monitors suppliers for changes in commercial, financial or performance risks, whilst ensuring that business continuity plans are in place.

### **The level of competitive & consolidation activity in the telecommunications market**

#### *Risk*

The Group operates exclusively in a highly competitive mobile communications market within the UK. Recent moves have seen consolidation and closures on the UK high street and speculation about existing mobile network operators and other service providers seeking to strengthen their market position as they come under increasing pressure.

A move towards convergence offers and the need to improve network/backhaul economics may encourage some fixed-mobile consolidation in a fragmented market.

There is also the opportunity for compelling quad play bundling with fixed, mobile, broadband and TV offerings. This is already the case in some international markets and could drive future moves in the UK.

#### *Impact*

Failure to achieve sustainable, profitable revenue growth could erode competitive position and reduce profitability, cash flow and the ability to invest for the future.

#### *Mitigation*

The Group will continue to deliver to its Best Network plan and have successfully developed and launched a low cost TV option, EETV. The Group will also continue to explore opportunities with BT.

Close monitoring of customer trends and competitor activity enables the Group to respond by developing innovative propositions and retention campaigns.

### **Spectrum factors**

#### *Risk*

The Group needs to ensure that it acquires and maintains the right level and mix of spectrum through spectrum auctions, or after reallocations of spectrum by Ofcom (the independent regulator and competition authority for UK communications industries).

Ofcom has published a consultation on auction rules for an auction of 40MHz of spectrum in the 2.3GHz band, and 150MHz in the 3.4GHz band. These bands are not currently used widely for mobile in Europe but are harmonised technically and may become main stream mobile bands.

#### *Impact*

If EE fail to acquire and maintain the right level and mix of spectrum, this could negatively impact



# EE Limited

## Strategic Report (continued)

### Risk and uncertainties (continued)

our competitiveness in the medium to long term.

It should be noted that sub-1GHz spectrum is important for coverage (especially in-building) and 2.6GHz spectrum is important to provide capacity, and so requirements for all spectrum ranges need to be considered.

#### *Mitigation*


The Group monitors developments from the European Commission, UK Government and Ofcom in relation to the allocation of mobile spectrum in the UK. The Group also actively participates in any consultation processes.

#### **Other financial risks.**

#### *Risk*

Further information on financial risk management including the management of foreign currency related risk is provided in note 32.

The Strategic Report was approved by the Board of Directors on 5 February 2015 and signed on its behalf by



Olaf Swantee  
Director

# EE Limited

## Directors' Report

The Directors present their report and the audited financial statements of the Group and Company for the year ended 31 December 2014.

### Directors

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

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

### Research and development

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

### Going concern

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

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

On the basis of the assessment of the Group's financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the Group and Company annual financial statements.

### Events since the balance sheet date

Since the reporting date, the Group has now reached a confidential agreement with one operator regarding its claims in relation to the non-geographic number dispute, which is taken into account within the established provisions.

### Financial risk management objectives

See Note 32 for financial risk management, objectives and policies.

### Employee involvement

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

Splash is EE's bespoke, branded social network, which is seeing a week-on-week increase in traffic and interactions from the Group's average 12,566 employees all over the UK and beyond. Individual employees can raise issues and comment on the Group's activities with complete honesty, total transparency and trust that their comments will be listened to and acted upon. Feedback is real-time and the Group now has people from all over the business communicating in ways that were never before possible.

Employee feedback and opinion is actively canvassed in such meetings and also 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. In addition, Engagement Champions are appointed for each functional area who are accountable for ensuring engagement plans remain on track and also ensuring additional feedback is given and opportunities taken between the main surveys. These are published for all employees to see and sharing of best practice is encouraged via the company's intranet. EE also has Work Factor (category) owners who own key engagement drivers at a company level.

EE is celebrating having been listed, for the third year running, as one of the Sunday Times Top

# EE Limited

## Directors' Report (continued)

### Employee involvement (continued)

25 Best Big Companies To Work For in the UK. This is an annual survey run externally by 'Best Companies', allowing EE to benchmark itself across multiple sectors with companies of 5,000+ employees.

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

### Equal opportunities and disabled employees

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

EE is committed to valuing the diversity of its people, and to improve and measure its performance in this respect it has established collaborative working partnerships with a number of membership organisations. 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 Group.

### Disclosure of information to the auditor

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

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

### Appointment of the auditor

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

On behalf of the Board



Neal Milsom

Director

5<sup>th</sup> February 2015

# EE Limited

## Directors' statement of responsibilities

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

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

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

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

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

We have audited the financial statements of EE Limited for the year ended 31 December 2014 which comprise the Group income statement, the Statements of comprehensive income, the Statements of financial position, the Group statement of changes in equity, the Company statement of changes in equity, the Statements of cash flows and the related Notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Statement of Responsibilities set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

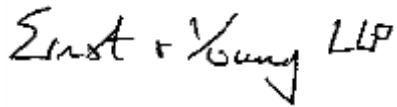
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

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

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



Philip Young (Senior statutory auditor)

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

London

5 February 2015

# EE Limited

## Group income statement For the year ended 31 December 2014

		2014	2013
	Notes	£m	£m
<b>Revenue</b>	7	<b>6,327</b>	<b>6,482</b>
External purchases	8	(4,160)	(4,309)
Other operating income	10	30	50
Other operating expense	10	(322)	(370)
Staff costs	11	(432)	(461)
Amortisation and depreciation	17, 18	(1,182)	(1,307)
Restructuring expenses	13	(77)	(79)
Exceptional expenses	14	(336)	-
<b>Group operating (loss)/profit</b>		<b>(152)</b>	<b>6</b>
Finance income	15	1	2
Finance expense	15	(99)	(102)
Finance costs net		(98)	(100)
Share of (loss) of associates and joint ventures	19	(5)	(7)
<b>Loss before tax</b>		<b>(255)</b>	<b>(101)</b>
Income tax	16	38	25
<b>Loss for the year attributable to the equity holders of the parent</b>		<b>(217)</b>	<b>(76)</b>

# EE Limited

## Statements of comprehensive income

For the year ended 31 December 2014

	Notes	Group		Company	
		2014	2013	2014	2013
		£m	£m	£m	£m
<b>(Loss)/profit for the year attributable to the equity holders of the parent</b>		<b>(217)</b>	<b>(76)</b>	<b>-</b>	<b>175</b>
<b>Items that may be subsequently reclassified to income statement</b>					
Cash flow hedges					
- Loss/(gain) recycled through Income Statement in the year	25	86	(37)	86	(37)
- Fair value (loss)/gain arising in the year	25	(87)	41	(87)	41
		(1)	4	(1)	4
<b>Items which will not be reclassified to Income Statement</b>					
Actuarial loss on defined benefit pension scheme	27	(53)	(67)	(53)	(67)
Deferred tax relating to defined benefit pension scheme	16	10	13	10	13
		(43)	(54)	(43)	(54)
<b>Other comprehensive loss for the year</b>		<b>(44)</b>	<b>(50)</b>	<b>(44)</b>	<b>(50)</b>
<b>Total comprehensive (loss)/profit for the year attributable to the equity holders of the parent</b>		<b>(261)</b>	<b>(126)</b>	<b>(44)</b>	<b>125</b>



# EE Limited

## Statements of financial position

As at 31 December 2014

Company number: 2382161		Group		Company	
		2014	2013	2014	2013
	Notes	£m	£m	£m	£m
<b>Non-current assets</b>					
Intangible assets	17	9,789	10,394	3,739	4,083
Property, plant and equipment	18	2,337	2,313	2,337	2,313
Associates and joint ventures	19	3	6	19	3
Deferred tax asset	16	219	173	417	425
Derivative financial instruments	25	7	49	7	49
Other non-current assets	21	22	22	22	22
<b>Total non-current assets</b>		<b>12,377</b>	<b>12,957</b>	<b>6,541</b>	<b>6,895</b>
<b>Current assets</b>					
Inventories	20	77	85	76	85
Trade and other receivables	21	992	1,147	994	1,147
Derivative financial instruments	25	2	-	2	-
Cash and cash equivalents	22	411	423	405	423
<b>Total current assets</b>		<b>1,482</b>	<b>1,655</b>	<b>1,477</b>	<b>1,655</b>
<b>Total assets</b>		<b>13,859</b>	<b>14,612</b>	<b>8,018</b>	<b>8,550</b>
<b>Current liabilities</b>					
Trade and other payables	23	(2,230)	(2,152)	(2,234)	(2,152)
Provisions	26	(204)	(164)	(204)	(164)
Interest bearing loans and borrowings	24	-	(41)	(2,082)	(2,180)
Derivative financial instruments	25	(10)	(11)	(10)	(11)
<b>Total current liabilities</b>		<b>(2,444)</b>	<b>(2,368)</b>	<b>(4,530)</b>	<b>(4,507)</b>
<b>Non-current liabilities</b>					
Derivative financial instruments	25	(26)	-	(26)	-
Provisions	26	(204)	(228)	(204)	(228)
Interest bearing loans and borrowings	24	(2,082)	(2,139)	-	-
Pension liability	27	(159)	(143)	(159)	(143)
Other non-current liabilities	23	(23)	(1)	(23)	(1)
<b>Total non-current liabilities</b>		<b>(2,494)</b>	<b>(2,511)</b>	<b>(412)</b>	<b>(372)</b>
<b>Total liabilities</b>		<b>(4,938)</b>	<b>(4,879)</b>	<b>(4,942)</b>	<b>(4,879)</b>
<b>Total net assets</b>		<b>8,921</b>	<b>9,733</b>	<b>3,076</b>	<b>3,671</b>

# EE Limited

## Statements of financial position (continued) As at 31 December 2014

	Notes	Group		Company	
		2014	2013	2014	2013
		£m	£m	£m	£m
<b>Capital and reserves</b>					
Share capital	28	22	22	22	22
Share premium account		1,638	1,638	1,638	1,638
Capital contribution reserve		196	196	196	196
Cash flow hedge reserve		5	6	5	6
Retained earnings		(4,003)	(3,192)	1,215	1,809
New basis reserve		11,063	11,063	-	-
<b>Total equity</b>		<b>8,921</b>	<b>9,733</b>	<b>3,076</b>	<b>3,671</b>

The financial statements were approved by the board of Directors on 5 February 2015 and were signed on its behalf by



Neal Milsom  
Director

# EE Limited

## Group statement of changes in equity

For the year ended 31 December 2014

	Share capital	Share premium account	Capital contribution reserve	New basis reserve	Retained earnings	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m	£m
<b>At 31 December 2012</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>11,063</b>	<b>(2,604)</b>	<b>2</b>	<b>10,317</b>
Loss for the financial year	-	-	-	-	(76)	-	(76)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(67)	-	(67)
Deferred tax relating to defined benefit pension scheme	-	-	-	-	13	-	13
<b>Cash flow hedges</b>							
Gains recycled through the Income Statement	-	-	-	-	-	(37)	(37)
Fair value gain arising in the year	-	-	-	-	-	41	41
<b>Other comprehensive income &amp; expense</b>							
Dividends declared and paid	-	-	-	-	(458)	-	(458)
<b>At 31 December 2013</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>11,063</b>	<b>(3,192)</b>	<b>6</b>	<b>9,733</b>
Loss for the financial year	-	-	-	-	(217)	-	(217)
Actuarial loss on defined benefit pension scheme	-	-	-	-	(53)	-	(53)
Deferred tax relating to defined benefit pension scheme	-	-	-	-	10	-	10
<b>Cash flow hedges</b>							
Losses recycled through the Income Statement	-	-	-	-	-	86	86
Fair value loss arising in the year	-	-	-	-	-	(87)	(87)
<b>Other comprehensive income &amp; expense</b>							
Dividends declared and paid	-	-	-	-	(551)	-	(551)
<b>At 31 December 2014</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>11,063</b>	<b>(4,003)</b>	<b>5</b>	<b>8,921</b>

# EE Limited

## Company statement of changes in equity

For the year ended 31 December 2014

	Share capital	Share premium account	Capital contribution reserve	Retained earnings	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m
<b>At 31 December 2012</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>2,146</b>	<b>2</b>	<b>4,004</b>
Profit for the financial year	-	-	-	175	-	175
Actuarial loss on defined benefit pension scheme	-	-	-	(67)	-	(67)
Deferred tax relating to defined benefit pension scheme	-	-	-	13	-	13
<b>Cash flow hedges</b>						
Gains recycled through the Income Statement	-	-	-	-	(37)	(37)
Fair value gain arising in the year	-	-	-	-	41	41
<b>Other comprehensive income &amp; expense</b>						
Dividends declared and paid	-	-	-	(458)	-	(458)
<b>At 31 December 2013</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>1,809</b>	<b>6</b>	<b>3,671</b>
Loss for the financial year	-	-	-	-	-	-
Actuarial loss on defined benefit pension scheme	-	-	-	(53)	-	(53)
Deferred tax relating to defined benefit pension scheme	-	-	-	10	-	10
<b>Cash flow hedges</b>						
Losses recycled through the Income Statement	-	-	-	-	86	86
Fair value loss arising in the year	-	-	-	-	(87)	(87)
<b>Other comprehensive income &amp; expense</b>						
Dividends declared and paid	-	-	-	(551)	-	(551)
<b>At 31 December 2014</b>	<b>22</b>	<b>1,638</b>	<b>196</b>	<b>1,215</b>	<b>5</b>	<b>3,076</b>

# EE Limited

## Statements of cash flows

For the year ended 31 December 2014

	Notes	Group		Company	
		2014	2013	2014	2013
		£m	£m	£m	£m
<b>Operating activities</b>					
<i>(Loss)/profit for the year</i>		(217)	(76)	-	175
<i>Adjustments to reconcile the loss for the year to cash generated from operations</i>					
Depreciation and amortisation	17, 18	1,182	1,307	916	934
Change in other provisions (excluding discount unwind)	26	6	(116)	6	(116)
Difference between pension contributions and amounts recognised in the income statement		(37)	(2)	(37)	(2)
Income tax	16	(38)	(25)	16	97
Net finance expense	15	98	100	98	100
Share of loss of associates and joint ventures	19	5	7	-	-
Write-down of associates and joint ventures	19	-	-	-	7
Loss on disposal of non-current assets	17-18	-	5	-	5
<i>Changes in working capital requirements</i>					
Decrease in inventories	20	8	40	9	40
Decrease in trade and other receivables	21	155	23	153	23
Increase in trade and other payables	23	105	-	104	-
Decrease in other long-term assets	21	-	3	-	3
<b>Cash generated from operations</b>		<b>1,267</b>	<b>1,266</b>	<b>1,265</b>	<b>1,266</b>
Interest income received		-	1	-	1
Foreign exchange received		-	1	-	1
Interest (paid) and interest rates effects on derivatives		(81)	(83)	(81)	(83)
Income tax received		2	16	2	16
<b>Net cash provided by operating activities</b>		<b>1,188</b>	<b>1,201</b>	<b>1,186</b>	<b>1,201</b>
<b>Investing activities</b>					
Purchases of property, plant and equipment and intangible assets	17-18	(596)	(1,207)	(596)	(1,207)
Purchase of subsidiary	19	(10)	-	(12)	-
Investment in joint arrangements	19	(4)	(8)	(4)	(8)
Dividends received from associates and joint ventures	19	2	-	-	-
<b>Net cash used in investing activities</b>		<b>(608)</b>	<b>(1,215)</b>	<b>(612)</b>	<b>(1,215)</b>

# EE Limited

## Statements of cash flows (continued) For the year ended 31 December 2014

	Notes	Group		Company	
		2014 £m	2013 £m	2014 £m	2013 £m
<b>Financing activities</b>					
<i>Proceeds from new borrowings</i>					
Non-current borrowings	24	-	17	-	17
Cash collateral (paid)/received	24	(41)	32	(41)	32
<i>Redemptions and repayments</i>					
Dividends paid	29	(551)	(458)	(551)	(458)
		<b>(592)</b>	<b>(409)</b>	<b>(592)</b>	<b>(409)</b>
<b>Net cash used in financing activities</b>					
<b>Net change in cash and cash equivalents</b>					
	22	<b>(12)</b>	<b>(423)</b>	<b>(18)</b>	<b>(423)</b>
Cash and cash equivalents at the beginning of the year					
	22	423	846	423	846
<b>Cash and cash equivalents at the end of the year</b>					
	22	<b>411</b>	<b>423</b>	<b>405</b>	<b>423</b>

# EE Limited

## Notes to the Financial Statements

### 1. Corporate information

The financial statements of the Group and Company for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 5 February 2015. The statements of financial position were signed on behalf of the board by Neal Milsom. The Company is a limited company incorporated and domiciled in the United Kingdom. The registered office is located at Trident Place, Mosquito Way, Hatfield, Hertfordshire, AL10 9BW.

### 2.1 Basis of preparation

The consolidated financial statements of the Group and the Company financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), as adopted by the European Union and the Companies Act 2006.

As permitted by Section 408(3) of the Companies Act 2006, no income statement is presented for the Company, however the Company's income statement has been approved by the Board of Directors. The Company loss after tax for the year ended 31 December 2014 was £0 million (2013: Profit of £175 million).

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

### Going concern

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

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

On the basis of the assessment of the Group's financial position, the Directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future, and thus continue to adopt the going concern basis of accounting in preparing the Group and Company annual financial statements.

### Significant estimates and judgements

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

#### Judgements

#### Depreciation and Amortisation of Assets

The Group 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.

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 Group's depreciation policies are set out in notes 2.3.i (Intangible Assets), 2.3.j (Property, Plant and Equipment), and notes 17 and 18.

#### 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

# EE Limited

## Notes to the Financial Statements (continued)

### 2.1 Basis of preparation (continued)

#### Significant estimates and judgements (continued)

Group's taxation position requires the Directors to make significant judgements and estimates.

Differences arising between the actual results and the assumptions made, or future changes to such assumptions could necessitate future adjustment to tax income and expense already recorded.

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

#### Estimates and assumptions

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

#### Provisions

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

- Onerous lease provision: This represents the rent and rates for surplus leasehold properties less any anticipated income from sub-letting the properties. Assumptions are made about the value of future payments and receipts based on market conditions and the timing concerning any future sub-letting of space. The provision is calculated at net present value using a discounted cash flow model.
- Asset Retirement Obligation (ARO): The Group is required to dismantle equipment and restore sites and properties under operating leases. 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 Group, both before and after the combination of the T-Mobile and Orange businesses. 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, assumptions around the outcome of ongoing legal disputes with other network operators and the timing of future cash flows. The directors, having taken legal advice have established provisions according to the facts of each case.
- On 9 July 2014, the Supreme Court issued its ruling on the ongoing legal dispute regarding non-geographic numbers between BT and various mobile operators and on 3 December 2014 it issued its final Order. The Supreme Court Order remits certain matters relating to remedies to the Competition Appeal Tribunal ("CAT"). Further administrative and legal steps will now be undertaken by the CAT, EE and the other parties to determine the final financial impact. The directors have established provisions associated with the dispute including for potential claims from other fixed operators. The timing and amount of cash flows associated with legal cases is uncertain. Since the reporting date the Group has reached a confidential agreement with one operator regarding its claims in relation to the dispute, which is taken into account within the established provisions.



# EE Limited

## Notes to the Financial Statements (continued)

### 2.1 Basis of preparation (continued)

#### Significant estimates and judgements (continued)

##### Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. Additional information is disclosed in note 27.

##### Goodwill and intangible asset impairment

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

##### Depreciation of tangible fixed assets

Assets are depreciated based on estimates surrounding the useful economic life of such assets.

##### Classification of Joint Arrangements

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

##### Joint Operations

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

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

##### Joint Ventures and Investments in Associate

The Group has entered into a number of arrangements which have been classified as either joint ventures or investments in associate.

The facts and circumstances surrounding the nature of the arrangements have been considered in accordance with IFRS 10 and 11 to determine the classification and subsequent accounting of the arrangements.

##### 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. Changes in assumptions about these factors could affect the fair value of financial instruments.

# EE Limited

## Notes to the Financial Statements (continued)

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of EE Limited and its subsidiaries as at 31 December 2014.

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

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

The financial statements of the subsidiaries are prepared using consistent accounting policies.

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

### 2.3 Summary of significant accounting policies

#### a) Goodwill and business combinations

Goodwill is initially measured at cost being the excess of the equity value transferred into the Group upon formation over the net fair value of the identifiable assets and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but tested for impairment at least once a year, or more frequently when there is an indication that it may be impaired. For the purpose of impairment testing, goodwill 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. This estimate is determined on the basis of available market information including:

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

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

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

Value in use is the present value of the future cash flows expected to be derived from the CGUs or groups of CGUs. Cash flow projections are based on economic and regulatory assumptions,

# EE Limited

## Notes to the Financial Statements (continued)

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

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

licence renewal assumptions and forecast trading conditions drawn up by the Group's management, as follows:

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

#### b) Interests in Joint Arrangements

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

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

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

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

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

#### c) Interests in Associates

Companies over which the Group exercises significant influence (generally corresponding to an ownership interest of 20% to 50%) are classified as associates.

The results, assets and liabilities of associates are included in the Group's financial statements using equity accounting, whereby an equity investment is initially recorded at cost and subsequently adjusted to reflect the Group's share of the net assets.

#### d) Foreign currency translation

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

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

Monetary assets and liabilities are re-measured at each reporting date at the functional currency exchange rate as at that date and the resulting translation differences are recorded in the income statement:

# EE Limited

## Notes to the Financial Statements (continued)

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

#### d) Foreign currency translation (continued)

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

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

#### e) Revenue recognition

Revenue includes:

- amounts invoiced for airtime and related services supplied to subscribers, together with airtime income earned but not invoiced;
- amounts invoiced for interconnect in respect of calls terminating on the EE network, together with interconnect income earned but not invoiced;
- income from the sale of connected handsets and related accessories supplied to subscribers within the period;
- income from the sale of handsets and related accessories delivered to intermediaries within the period; and
- income from pre-paid customers which is deferred in the consolidated statement of financial position on purchase by the customer and released to the consolidated income statement as calls are made.

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

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

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

#### i) Separable components of packaged and bundled offers

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

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

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

Sales of bundled offers in the mobile business frequently include a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount attributable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue

# EE Limited

## Notes to the Financial Statements (continued)

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

#### e) Revenue recognition (continued)

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.

#### iii) Equipment rental

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

Equipment lease revenues are recognised on a straight-line basis over the life of the lease agreement, except in the case of finance leases which are accounted for in accordance with IAS 17.

#### iv) Revenue share arrangements

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

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

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

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

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

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

# EE Limited

## Notes to the Financial Statements (continued)

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

#### e) Revenue recognition (continued)

##### v) 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.

##### vi) Business contracts

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

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

##### vii) 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.

##### viii) Penalties

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

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

##### ix) 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.

##### x) Loyalty programs

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

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

The amount deferred is considered to be the fair value of the credits as required by IFRIC 13.

#### f) Advertising and related costs

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

# EE Limited

## Notes to the Financial Statements (continued)

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

#### g) Borrowing costs

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

#### h) Finance and operating leases

Assets acquired under leases that transfer the risks and rewards of ownership to the Group (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.

#### i) Intangible assets

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

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

#### Customer relationships

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

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

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

#### Spectrum - 2G & 3G

The fair value of the spectrum to operate mobile telephone networks determined at the date of combination on 1 April 2010 (2G and 3G spectrum) are amortised through the consolidated income statement on a straight-line basis from the date of combination for the remaining spectrum period, which does not exceed 11 years from the date of combination.

#### Spectrum - 4G

The Group acquired £620 million of additional (4G) spectrum in the year ended 31 December 2013, following successful participation in the Ofcom spectrum auction. This intangible asset was first available for use in the current period, due to the requisite technologies first being deployed in the network in 2014, and amortisation of the asset through the consolidated income statement on a straight-line basis over the remaining term of the licence (until 2033) has now commenced.

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

The Group's research and development projects mainly concern:

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

# EE Limited

## Notes to the Financial Statements (continued)

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

#### i) Intangible assets (continued)

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

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

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

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

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

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

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

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

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

#### Other - Licences

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

#### Other – rights to use

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

#### j) Property, plant and equipment

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

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



# EE Limited

## Notes to the Financial Statements (continued)

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

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

##### Cost

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

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

##### Network share assets

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

##### Finance leases

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

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

##### 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 team |
| • 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.

# EE Limited

## Notes to the Financial Statements (continued)

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

#### k) 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.

#### l) 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.

##### Recognition and measurement of financial liabilities

###### Financial liabilities at amortised cost

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

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

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

###### Derivative financial instruments and hedge accounting

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

# EE Limited

## Notes to the Financial Statements (continued)

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

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

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

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

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

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

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

#### Cash flow hedges

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

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

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or expenses is recognised or when a forecast sale occurs.

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.

#### m) Equipment inventories

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

#### n) Provisions

A provision is recognised when the Group has a present obligation towards a third party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory, contractual, or it may represent a constructive obligation. Constructive obligations arise from the Group's actions whereby an established

# EE Limited

## Notes to the Financial Statements (continued)

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

#### n) Provisions (continued)

pattern of past practice, published policies or a sufficiently specific current statement create a valid expectation on the part of other parties that the Group will discharge certain responsibilities.

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

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

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

#### o) Employee benefits

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

##### Defined Contribution Scheme

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

##### Defined Benefit Scheme

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

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

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

#### p) Current income tax

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

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

#### q) Deferred taxes

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

# EE Limited

## Notes to the Financial Statements (continued)

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

#### q) Deferred taxes (continued)

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 except:

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

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

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

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

#### r) Cash and cash equivalents

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

#### s) Exceptional expenses

Exceptional expenses are material costs that are incurred outside of the normal course of business, which are anticipated to only occur in one accounting period.

# EE Limited

## Notes to the Financial Statements (continued)

### 3. New and revised IFRSs applied

The following new and revised IFRSs became effective for the accounting period commencing on 1 January 2014. These have been adopted in these Group and Company financial statements, and have had no material impact on the accounts for the year ending 31 December 2014.

- *IAS 32 'Financial Instruments' Presentation on asset and liability offsetting*
- *IAS 39 'Novation of Derivatives and Continuation of Hedge Accounting'*
- *IAS 36 'Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36'*

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

The following is a list of standards/interpretations that have been issued and are effective for accounting periods commencing on or after 1 January 2015 and we consider will have an impact on the Group and Company financial statements:

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

IFRS 9 'Financial Instruments' was published in July 2014. It is applicable to financial assets and financial liabilities, and covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities together with a new hedge accounting model.

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

The standard is effective for annual periods beginning on or after 1 January 2018.

The Group is in the process of quantifying the impact of the new Standard.

#### **IFRS 15 'Revenue from Contracts with Customers'**

IFRS 15 sets out the requirements for recognising revenue from contracts with customers. The standard requires entities to apportion revenue earned from contracts to the individual performance obligations on a relative standalone selling basis, based on a 5-step model to be applied to all contracts with customers. The standard was published in May 2014.

The Group is in the process of quantifying the impact of the new Standard, and based on work performed to date it has been assessed that revenue will be accelerated due to greater apportionment of consideration from customers to upfront handset and device revenue.

The standard is effective for annual periods beginning on or after 1 January 2017.

### 5. Segment Information

The Group supplies communication services and products to the UK market, through a national telecommunications network. This is considered to be a single group of services and products provided by an inter-dependent asset infrastructure, to one geographical area. The Group has focused upon integration since the combination and produces all operating results, forecasts and budgets at the consolidated level for the purposes of allocating resources. Operationally the Group has demonstrated its unity to its customers by providing free roaming across the one EE branded network. Due to these factors there are not considered to be separable identifiable operating segments for which financial information can be presented.

# EE Limited

## Notes to the Financial Statements (continued)

### 6. EBITDA and Adjusted EBITDA

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Loss before tax	(255)	(101)
<i>Add back:</i>		
Net finance costs	98	100
Amortisation and depreciation	1,182	1,307
Share of Loss of joint ventures and associates	5	7
	<hr/>	<hr/>
EBITDA	1,030	1,313
<i>Add back:</i>		
Management and brand fees	146	182
Restructuring expenses	77	79
Exceptional expenses	336	-
	<hr/>	<hr/>
Adjusted EBITDA	1,589	1,574
	<hr/>	<hr/>

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

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

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

# EE Limited

## Notes to the Financial Statements (continued)

### 7. Revenue

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Mobile service revenue	5,619	5,734
Other	708	748
	<hr/>	<hr/>
Total revenue	6,327	6,482
	<hr/>	<hr/>

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

### 8. External purchases

External purchases comprise:

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Commercial expenses	2,419	2,512
Service fees and inter-operator costs	1,003	1,080
Other network charges, IT charges	312	332
Other external purchases	426	385
	<hr/>	<hr/>
Total external purchases	4,160	4,309
	<hr/>	<hr/>



# EE Limited

## Notes to the Financial Statements (continued)

### 9. Auditor's remuneration

The remuneration of the auditor is analysed as follows:

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	1,080	1,160
Fees payable to the Company's auditor and its associates for other services:		
- the audit of the Company's subsidiaries pursuant to legislation	37	28
- half year review	100	100
- other assurance services	76	112
	1,293	1,400

In addition Ernst & Young LLP received £28,000 (2013: £27,000) for the audit of the Group's pension scheme.

### 10. Other operating income / expense

#### Group

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
<b>Other operating income</b>		
Other operating income	30	42
Foreign exchange gains on trade payables	-	8
Total other operating income	30	50

Included in other operating income is £3 million relating to the sale of site access rights in the period (2013: £15 million).

# EE Limited

## Notes to the Financial Statements (continued)

### 10. Other operating income / expense (continued)

Group	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
<b>Other operating expense</b>		
Property rates	60	78
Spectrum fees	28	32
Bad debt expense	83	78
Management and brand fees	146	182
Foreign exchange losses on trade payables	5	-
	<hr/>	<hr/>
Total other operating expense	322	370

In 2014 the Lands Valuation Appeal Court has ruled in favour of EE and other operators in connection to rates levied on network sites. This has resulted in a net £18 million rebate being recognised in property rates.

### 11. Employees

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

	Year ended 31 December 2014 No.	Year ended 31 December 2013 No.
Operations	1,502	1,547
Selling and distribution	4,078	4,186
Customer care and administration	6,986	7,116
	<hr/>	<hr/>
	12,566	12,849

The costs incurred in respect of these employees are:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Wages and salaries	425	423
Social security costs	49	49
Pension costs		
- Defined benefit	8	14
- Defined contribution	23	18
- Curtailment gain	(28)	-
Own work capitalised (development costs)	(45)	(43)
	<hr/>	<hr/>
Total employee cost	432	461

# EE Limited

## Notes to the Financial Statements (continued)

### 11. Employees (continued)

In addition to the above, £20 million (2013: £13 million) of employee costs are included in restructuring expenses (note 13).

The EE Defined Benefit pension scheme was closed to future accrual from 30 June 2014, resulting in the pension liability being reduced by £28 million and the curtailment revaluation arising has been recognised in the Income Statement (employee cost) in the period.

### 12. Directors' emoluments

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

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Remuneration	2,617	2,576
Pension costs	110	59
Amounts accrued under long term incentive schemes	<u>768</u>	<u>879</u>
Total emoluments	<u>3,495</u>	<u>3,514</u>

Employer's National Insurance contributions in respect of key management personnel were £465,000 (2013: £475,000).

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

	Year ended 31 December 2014 £'000	Year ended 31 December 2013 £'000
Total emoluments	2,438	2,685
Pension costs	<u>68</u>	<u>11</u>
	<u>2,506</u>	<u>2,696</u>

Retirement benefits in the form of defined contribution schemes are accruing for two directors at 31 December 2014 (31 December 2013: two).

### 13. Restructuring expenses

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Lease exit costs	31	14
Employee costs	20	13
Other	<u>26</u>	<u>52</u>
Total restructuring expenses	<u>77</u>	<u>79</u>

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

# EE Limited

## Notes to the Financial Statements (continued)

### 14. Exceptional expenses

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Phones 4U contract termination expense	<u>336</u>	<u>-</u>
Total exceptional expenses	<u>336</u>	<u>-</u>

The Phones 4U contract termination expense of £336 million comprises items relating to the end of the commercial relationship with Phones 4U. Following Phones 4U Limited entering Administration and EE's subsequent termination of its agreements in September 2014, there has been an accelerated recognition of prepaid customer investment costs for future services to be delivered by Phones 4U which would have previously been expensed over future periods. This exceptional, non-cash transaction, has been treated as a one-off item in the full year 2014 results.

### 15. Finance income and expense

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
<b>Finance income</b>		
Finance income	<u>1</u>	<u>2</u>
<b>Finance expense</b>		
Finance costs (calculated using effective interest rate) on financial liabilities measured at amortised cost	(82)	(85)
Net pension interest cost	(6)	(4)
Unwinding of discount	(10)	(13)
Foreign exchange losses	<u>(1)</u>	<u>-</u>
Total finance expense	<u>(99)</u>	<u>(102)</u>

### 16. Taxation

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Current income tax:		
UK corporation tax	-	(31)
Adjustments in respect of previous periods	<u>(2)</u>	<u>-</u>
Total current income tax income	<u>(2)</u>	<u>(31)</u>
Deferred tax:		
Origination and reversal of temporary differences	(39)	18
Impact of tax rate change on deferred tax asset	-	21
Adjustments in respect of previous periods	<u>3</u>	<u>(33)</u>
Total deferred tax (income) / expense	<u>(36)</u>	<u>6</u>
Income tax (income) in the consolidated income statement	<u>(38)</u>	<u>(25)</u>

# EE Limited

## Notes to the Financial Statements (continued)

### 16. Taxation (continued)

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Deferred tax related to items charged or credited directly to the consolidated statement of comprehensive income:		
Deferred tax on actuarial loss on pension liability	(10)	(13)
Deferred tax on cash flow hedges	<u>-</u>	<u>-</u>
Deferred tax (income) in the consolidated statement of comprehensive income	<u>(10)</u>	<u>(13)</u>

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

The income tax expense for the year differs from the average standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are reconciled below:

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Accounting loss before income tax	<u>(255)</u>	<u>(101)</u>
Accounting loss multiplied by the UK average standard rate of corporation tax of 21.5% (2013: 23.25%)	(55)	(23)
Non-deductible expenses	16	10
Impact of tax rate change on the deferred tax asset	-	21
Current income tax adjustments in respect of previous periods	(2)	-
Deferred tax adjustments in respect of previous periods	3	(33)
	<u>(38)</u>	<u>(25)</u>
Total income tax (income) at the effective tax rate of 14.82% (2013: 25.0%)	<u>(38)</u>	<u>(25)</u>

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

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

# EE Limited

## Notes to the Financial Statements (continued)

### 16. Taxation (continued)

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

The deferred tax in the consolidated statement of financial position, calculated at a tax rate of 20% (31 December 2013: 20%) is as follows:

	31 December 2014 Group £m	31 December 2013 Group £m	31 December 2014 Company £m	31 December 2013 Company £m
<b>Deferred tax liability</b>				
Accelerated tax depreciation	(253)	(298)	(55)	(46)
Cash flow hedges	(1)	(1)	(1)	(1)
	<u>(254)</u>	<u>(299)</u>	<u>(56)</u>	<u>(47)</u>
	31 December 2014 Group £m	31 December 2013 Group £m	31 December 2014 Company £m	31 December 2013 Company £m
<b>Deferred tax asset</b>				
Trading tax losses	422	404	422	404
Pension scheme liabilities	31	28	31	28
Provisions deductible on a paid basis	20	40	20	40
	<u>473</u>	<u>472</u>	<u>473</u>	<u>472</u>
<b>Disclosed in the consolidated statement of financial position</b>				
Net deferred tax asset	<u>219</u>	<u>173</u>	<u>417</u>	<u>425</u>

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

# EE Limited

## Notes to the Financial Statements (continued)

### 16. Taxation (continued)

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

	31 December 2014 Group £m	31 December 2013 Group £m	31 December 2014 Company £m	31 December 2013 Company £m
<b>Opening balance at 1 January</b>	173	167	425	542
<b>Deferred tax income/(expense) in the consolidated income statement</b>				
Accelerated tax depreciation	45	(5)	(9)	(128)
Trading tax losses	18	18	18	18
Pension scheme liabilities	(7)	(3)	(7)	(3)
Provisions deductible on a paid basis	(20)	(17)	(20)	(17)
<b>Deferred tax income in the consolidated statement of comprehensive income</b>				
Pension scheme liabilities	10	13	10	13
Cash flow hedges	-	-	-	-
<b>Closing balance at 31 December</b>	<u>219</u>	<u>173</u>	<u>417</u>	<u>425</u>

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

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

Although the Group was loss making in the year ended 31 December 2014, it considers that its net deferred tax asset is fully recoverable based on the results forecast in its five year strategic plan.

# EE Limited

## Notes to the Financial Statements (continued)

### 17. Intangible assets

Group	Goodwill £m	Customer relationships £m	Spectrum £m	Other £m	Total £m
<i>Cost:</i>					
At 31 December 2012	5,692	2,600	3,682	922	12,896
Additions	-	-	620	123	743
At 31 December 2013	5,692	2,600	4,302	1,045	13,639
Additions	5	5	-	116	126
At 31 December 2014	5,697	2,605	4,302	1,161	13,765
<i>Amortisation:</i>					
At 31 December 2012	-	(1,015)	(921)	(464)	(2,400)
Charge during the year	-	(369)	(335)	(141)	(845)
At 31 December 2013	-	(1,384)	(1,256)	(605)	(3,245)
Charge during the year	-	(261)	(343)	(127)	(731)
At 31 December 2014	-	(1,645)	(1,599)	(732)	(3,976)
Net book value at 31 December 2014	5,697	960	2,703	429	9,789
Net book value at 31 December 2013	5,692	1,216	3,046	440	10,394
Net book value at 31 December 2012	5,692	1,585	2,761	458	10,496



# EE Limited

## Notes to the Financial Statements (continued)

### 17. Intangible assets (continued)

Company	Goodwill £m	Spectrum £m	Other £m	Total £m
<i>Cost:</i>				
At 31 December 2012	637	3,682	814	5,133
Additions	-	620	124	744
At 31 December 2013	637	4,302	938	5,877
Additions	-	-	121	121
At 31 December 2014	637	4,302	1,059	5,998
<i>Amortisation:</i>				
At 31 December 2012	-	(921)	(401)	(1,322)
Charge during the year	-	(335)	(137)	(472)
At 31 December 2013	-	(1,256)	(538)	(1,794)
Charge during the year	-	(343)	(122)	(465)
At 31 December 2014	-	(1,599)	(660)	(2,259)
Net book value at 31 December 2014	637	2,703	399	3,739
Net book value at 31 December 2013	637	3,046	400	4,083
Net book value at 31 December 2012	637	2,761	413	3,811

#### Goodwill

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

During the year the Group recognised a further £4.8 million of goodwill following the acquisition of the remaining share capital in Mainline Communications Group PLC.

Company goodwill arose prior to the formation of the Group.

#### Impairment test for goodwill and intangible assets

Goodwill is not ascribed a useful economic life, but, as required by IAS 36: Impairment of Assets, is subject to an annual impairment review. The impairment review for the Group was performed as at 31 October 2014, and resulted in no impairment to the carrying value of Goodwill.

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

# EE Limited

## Notes to the Financial Statements (continued)

### 17. Intangible assets (continued)

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

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

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

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

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

The value in use projections used a long term growth rate of 1% (2013: 1%), and a pre-tax discount rate of 9.37% (2013: 8.73%). The discount rate used was based upon an estimated cost of capital (calculated using the capital asset pricing model) taking into account relevant sector information.

The key assumptions which affect the cash flow forecast of the business include the development of the UK market and its size, the Group's share of the market, customer revenues, operating margins and network maintenance expenditure. Any significant future changes in these assumptions could have an impact on the value in use.

Based on the assessment of sensitivities the Group does not believe that any reasonably possible changes in assumptions would lead to impairment.

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

#### Customer relationships - Group

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

#### Spectrum – Group and Company

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

#### Other – Group and Company

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

As at 31 December 2014, other intangible assets includes assets under construction of £151 million (2013: £132 million). The impairment test did not identify any indicators of impairment for these assets.

# EE Limited

## Notes to the Financial Statements (continued)

### 18. Property, plant and equipment

<b>Group and Company</b>	<b>Freehold land &amp; buildings</b>	<b>Short term leasehold improvements</b>	<b>Network</b>	<b>Fixtures &amp; fittings</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Cost:</i>					
At 31 December 2012	53	152	2,895	99	3,199
Additions	-	7	445	12	464
Disposals	-	(4)	(57)	(5)	(66)
At 31 December 2013	53	155	3,283	106	3,597
Additions	-	6	431	38	475
Disposals	-	(1)	(91)	(2)	(94)
At 31 December 2014	53	160	3,623	142	3,978
<i>Depreciation:</i>					
At 31 December 2012	(4)	(36)	(798)	(45)	(883)
Charge during the year	(2)	(11)	(418)	(31)	(462)
Disposals	-	4	52	5	61
At 31 December 2013	(6)	(43)	(1,164)	(71)	(1,284)
Charge during the year	(4)	(13)	(405)	(29)	(451)
Disposals	-	1	91	2	94
At 31 December 2014	(10)	(55)	(1,478)	(98)	(1,641)
Net book value at 31 December 2014	43	105	2,145	44	2,337
Net book value at 31 December 2013	47	112	2,119	35	2,313
Net book value at 31 December 2012	49	116	2,097	54	2,316

# EE Limited

## Notes to the Financial Statements (continued)

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

#### Network Share Arrangement

Selected network assets are jointly controlled with Hutchison 3G UK Limited. The Group's share of the jointly controlled assets is £623 million at 31 December 2014 (2013: £649 million) and is shown within network assets.

Included in Group network assets is £182 million (2013: £172 million), which is the Group's share of MBNL network assets as a result of adoption of IFRS 11 in 2013.

#### Fully depreciated assets

Included above are fully depreciated assets with an original cost of £138 million (2013: £65 million) which are still in use.

#### Assets under construction

As at 31 December 2014, included within Network assets are £211 million (2013: £129 million) of assets under construction. This includes assets located on both unilateral and shared network sites.

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

#### a) Interests in subsidiaries

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

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

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

# EE Limited

## Notes to the Financial Statements (continued)

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

adjusted for subsequent material transactions, where the year end of the subsidiary is within 3 months of the year end of the Group. Where the year end is outside of 3 months of Group's reporting period, the latest management accounts of the subsidiary are used, adjusted for subsequent material transactions.

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

Orange Services India Private Limited reports to the year ending 31 March to comply with the Indian fiscal year. Mainline Communications Group PLC reports to the year ending 31 August.

On 18 December 2014, the Group purchased the remaining 74% share capital of Mainline Communications Group PLC, gaining control of the entity and hence it was classified as a subsidiary (2013: Joint Venture, 26% holding), and has been consolidated into the Group's Consolidated Statement of Financial Position.

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

##### i) Joint Operations

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

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

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

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

Set out below are the associates and joint ventures of the Group as at 31 December 2014 which, in the opinion of the directors, are individually not material to the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

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

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

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

# EE Limited

## Notes to the Financial Statements (continued)

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

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

<b>Group</b>	31 December 2014	31 December 2013
	£m	£m
Balance at the beginning of the year	6	5
<i>Aggregate amounts of the Group's share of:</i>		
Increase in investment in the period	14	8
(Loss) from continuing activities	(5)	(7)
Dividends received	(2)	-
Associates consolidated as subsidiaries following acquisition	(10)	-
<b>Balance at the end of the year</b>	<b>3</b>	<b>6</b>

<b>Company</b>	31 December 2014	31 December 2013
	£m	£m
Balance at the beginning of the year	3	2
Increase in investment in the period	16	1
<b>Balance at the end of the year</b>	<b>19</b>	<b>3</b>

# EE Limited

## Notes to the Financial Statements (continued)

### 20. Inventories

	Group		Company	
	31 December 2014 £m	31 December 2013 £m	31 December 2014 £m	31 December 2013 £m
Inventories of handsets	77	85	76	85
Gross value	93	103	92	103
Provision for obsolescence	(16)	(18)	(16)	(18)
Total inventories at the lower of cost and net realisable value	77	85	76	85

The amount of inventory included within external purchases was £1,273 million (2013: £1,324 million). This includes write-downs on new inventory of £2 million (2013: £5 million).

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

	Group		Company	
	31 December 2014 £m	31 December 2013 £m	31 December 2014 £m	31 December 2013 £m
<b>Current:</b>				
Trade receivables	770	764	772	764
Prepaid external purchases	212	378	212	378
Other assets and prepaid operating expenses	10	5	10	5
Total trade and other receivables	992	1,147	994	1,147
<b>Non-current:</b>				
Prepayments	22	22	22	22

# EE Limited

## Notes to the Financial Statements (continued)

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

As at 31 December 2014, trade receivables at nominal value of £114 million (2013: £124 million) were determined to be impaired because of poor payment history or insolvency of the debtor and fully provided for.

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

Group and Company	31 December 2014 £m	31 December 2013 £m
Opening balance	124	130
Utilisation	(103)	(85)
Increase in provision	106	95
Decrease in provision	(13)	(16)
	<hr/>	<hr/>
Closing balance	114	124
	<hr/>	<hr/>

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

	Group		Company	
	31 December 2014 £m	31 December 2013 £m	31 December 2014 £m	31 December 2013 £m
Neither past due nor impaired	711	701	713	701
Past due but not impaired				
30 days	16	17	16	17
60 days	43	46	43	46
	<hr/>	<hr/>	<hr/>	<hr/>
	770	764	772	764
	<hr/>	<hr/>	<hr/>	<hr/>

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



# EE Limited

## Notes to the Financial Statements (continued)

### 22. Cash and cash equivalents

	Group		Company	
	31 December 2014 £m	31 December 2013 £m	31 December 2014 £m	31 December 2013 £m
Cash at Bank	52	61	46	61
Cash Pooling	359	362	359	362
	<u>411</u>	<u>423</u>	<u>405</u>	<u>423</u>

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

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

	Group		Company	
	31 December 2014 £m	31 December 2013 £m	31 December 2014 £m	31 December 2013 £m
<b>Current:</b>				
Trade Payables	1,722	1,610	1,726	1,610
VAT payable	152	194	152	194
Other taxes	1	6	1	6
Employee related payables	66	55	66	55
Deferred income	238	229	238	229
Interest payable	34	34	34	34
Other	17	24	17	24
	<u>2,230</u>	<u>2,152</u>	<u>2,234</u>	<u>2,152</u>
	31 December 2014 £m	31 December 2013 £m	31 December 2014 £m	31 December 2013 £m
<b>Non-current:</b>				
Other	23	1	23	1

# EE Limited

## Notes to the Financial Statements (continued)

### 24. Financial liabilities and net financial debt

Group	Interest rate %	31 December 2014 £m	31 December 2013 £m
<b>Interest bearing loans and borrowings</b>			
<b>Current:</b>			
Cash collateral received	SONIA/ EONIA	-	41
		-	41

Group	Interest rate %	Maturity	31 December 2014 £m	31 December 2013 £m
<b>Non-current</b>				
Euro medium term note – five year bond (€)	3.5	February 2017	386	413
Euro medium term note – seven year bond (£)	4.375	March 2019	446	445
Euro medium term note – six year bond (€)	3.25	August 2018	464	496
Revolving credit facility	LIBOR plus 0.95%	November 2016	-	-
Syndicated loan facilities	LIBOR plus 0.95%	November 2016	436	435
European Investment Bank loan	2.21	December 2017	350	350
			2,082	2,139

Company	31 December 2014 £m	31 December 2013 £m
<b>Current</b>		
Amount owed to subsidiary company	2,082	2,139
Cash collateral received	-	41
	2,082	2,180

# EE Limited

## Notes to the Financial Statements (continued)

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

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

#### Euro medium term note programme

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

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

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

#### Cash collateral received

Cash collateral is received or paid depending upon the valuation of derivative financial instruments. Interest accrues at the Sterling Overnight Interbank Rate ("SONIA") and Euro Overnight Interbank Rate ("EONIA"). During the year to 31 December 2014, the Group and Company fully repaid cash collateral of £41 million, reducing the liability to £0 million (2013: £41 million).

#### Net financial debt

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

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

	31 December 2014 £m	31 December 2013 £m
<b>Group</b>		
Euro 500m 3.5% note due 2017 (€)	388	416
Euro 600m 3.25% note due 2018 (€)	466	499
£450m 4.375% note due 2019 (£)	450	450
Finance lease liability	5	-
Syndicated bank loans (nominal amount)	438	438
European Investment Bank Loan	350	350
Cash collateral received	-	41
Financial liabilities	<u>2,097</u>	<u>2,194</u>
Cash & cash equivalents	(411)	(423)
Net financial debt	<u>1,686</u>	<u>1,771</u>

# EE Limited

## Notes to the Financial Statements (continued)

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

Company	31 December 2014 £m	31 December 2013 £m
<b>Current</b>		
Amount owed to subsidiary company	2,092	2,153
Finance lease liability	5	-
Cash collateral received	-	41
Financial liabilities	2,097	2,194
 Cash & cash equivalents	 (405)	 (423)
 Net financial debt	 1,692	 1,771

The year on year movement in the Euro denominated debt is due to the movement in the relevant foreign exchange rate (EUR/GBP) from 2013 to 2014. No new debt has been issued in 2014.

### 25. Financial instruments

	31 December 2014 £m	31 December 2013 £m
<b>Derivative assets – Group and Company</b>		
<b>Current</b>		
Forward foreign currency contracts	2	-
	2	-
<b>Non-current</b>		
Cross currency interest rate swaps – cash flow hedge	7	49
	7	49
Total non-current derivative assets	7	49

# EE Limited

## Notes to the Financial Statements (continued)

### 25. Financial instruments (continued)

	31 December 2014 £m	31 December 2013 £m
<b>Derivative liabilities – Group and Company</b>		
<b>Current</b>		
Forward foreign currency contracts	(10)	(11)
Total current derivative liabilities	(10)	(11)
<b>Non-current</b>		
Cross currency interest rate swaps – cash flow hedge	(26)	-
Total non-current derivative liabilities	(26)	-

#### Cash flow hedges

To hedge the exposure of some of its operating cash flows in foreign currencies, the Group has set up risk hedging policies. Financial risk management is described in note 32.

Currency	Hedged nominal amount (£m)	Maturity date of hedged item	Hedging instrument	Hedged risk
EUR	294	2015	Forward FX contracts	Purchases in Euros
USD	44	2015	Forward FX contracts	Purchases in Dollars

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

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

The notional principal amount of cross-currency interest rate swaps as at 31 December 2014 was £887 million (2013: £887 million).

# EE Limited

## Notes to the Financial Statements (continued)

### 25. Financial instruments (continued)

Gains and losses associated with hedging activities are as follows:

	31 December 2014 £m	31 December 2013 £m
Loss/(gain) recycled through income statement	86	(37)
(Loss)/gain recognised in equity during the year	(87)	41
	<hr/>	<hr/>
	<u>(1)</u>	<u>4</u>

The losses recycled through the income statement have been taken through finance expense (£62 million) (2013: gains £28 million), external purchases (£19 million) (2013: gains £9 million) and other operating expense (£5 million) (2013: nil).

#### Financial assets and liabilities by category

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

# EE Limited

## Notes to the Financial Statements (continued)

### 25. Financial instruments (continued)

Group	Designated as cash flow hedges £m	Loans, receivables and financial liabilities at amortised cost £m	Total £m
<b>As at 31 December 2014</b>			
<b>Current assets</b>			
Cash and cash equivalents	-	411	411
Trade receivables	-	770	770
Forward foreign currency contracts	2	-	2
<b>Non-current assets</b>			
Cross currency interest rate swaps	7	-	7
<b>Current liabilities</b>			
Trade payables	-	(1,722)	(1,722)
Forward foreign currency contracts	(10)	-	(10)
<b>Non-current liabilities</b>			
Cross currency interest rate swaps	(26)	-	(26)
Borrowings	-	(2,082)	(2,082)
<b>Total</b>	<b>(27)</b>	<b>(2,623)</b>	<b>(2,650)</b>
<b>As at 31 December 2013</b>			
<b>Current assets</b>			
Cash and cash equivalents	-	423	423
Trade receivables	-	764	764
<b>Non-current assets</b>			
Cross currency interest rate swaps	49	-	49
<b>Current liabilities</b>			
Trade payables	-	(1,610)	(1,610)
Forward foreign currency contracts	(11)	-	(11)
Cash collateral received	-	(41)	(41)
<b>Non-current liabilities</b>			
Borrowings	-	(2,139)	(2,139)
<b>Total</b>	<b>38</b>	<b>(2,603)</b>	<b>(2,565)</b>

# EE Limited

## Notes to the Financial Statements (continued)

### 25. Financial instruments (continued)

Company	Designated as cash flow hedges £m	Loans, receivables and financial liabilities at amortised cost £m	Total £m
<b>As at 31 December 2014</b>			
<b>Current assets</b>			
Cash and cash equivalents	-	405	405
Trade receivables	-	772	772
Forward foreign currency contracts	2	-	2
<b>Non-current assets</b>			
Cross currency interest rate swaps	7	-	7
<b>Current liabilities</b>			
Trade payables	-	(1,725)	(1,725)
Forward foreign currency contracts	(10)	-	(10)
Borrowings	-	(2,082)	(2,082)
<b>Non-current liabilities</b>			
Cross currency interest rate swaps	(26)	-	(26)
<b>Total</b>	<b>(27)</b>	<b>(2,630)</b>	<b>(2,657)</b>
<b>As at 31 December 2013</b>			
<b>Current assets</b>			
Cash and cash equivalents	-	423	423
Trade receivables	-	764	764
<b>Non-current assets</b>			
Cross currency interest rate swaps	49	-	49
<b>Current liabilities</b>			
Trade payables	-	(1,610)	(1,610)
Forward foreign currency contracts	(11)	-	(11)
Cash collateral received	-	(41)	(41)
Borrowings	-	(2,139)	(2,139)
<b>Total</b>	<b>38</b>	<b>(2,603)</b>	<b>(2,565)</b>



# EE Limited

## Notes to the Financial Statements (continued)

### 25. Financial instruments (continued)

#### Fair value

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

#### 31 December 2014

	Carrying value £m	Fair value £m
<b>Financial liabilities</b>		
Euro medium term note – five year bond (€)	386	410
Euro medium term note – seven year bond (£)	446	484
Euro medium term note – six year bond (€)	464	503
Syndicated loan facilities	436	438
European Investment Bank loan	350	372
	<hr/>	<hr/>
	2,082	2,207

The Company has a short term financial liability in place with EE Finance Plc with a carrying value of £2,082 million.

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

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

#### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques that use inputs that have a significant effect on the recorded fair value, which are not based upon observable market data.

# EE Limited

## Notes to the Financial Statements (continued)

### 25. Financial instruments (continued)

As at 31 December 2014 the Group held the following financial instruments carried at fair value in the statement of financial position:

<b>31 December 2014</b>	Level 1	Level 2	Level 3	Total
<b>Group and Company</b>	£m	£m	£m	£m
<b>Financial assets</b>				
Foreign exchange rate forward contracts	-	2	-	2
Derivatives in effective hedges	-	7	-	7
<b>Financial liabilities</b>				
Foreign exchange rate forward contracts	-	(10)	-	(10)
Cross currency interest rate swaps	-	(26)	-	(26)
<b>Total</b>	-	(27)	-	(27)
<hr/>				
<b>31 December 2013</b>	Level 1	Level 2	Level 3	Total
<b>Group and Company</b>	£m	£m	£m	£m
<b>Financial assets</b>				
Derivatives in effective hedges	-	49	-	49
<b>Financial liabilities</b>				
Foreign exchange rate forward contracts	-	(11)	-	(11)
<b>Total</b>	-	38	-	38

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

# EE Limited

## Notes to the Financial Statements (continued)

### 26. Provisions – Group and Company

	Onerous Leases £m	ARO £m	Network share and other £m	Total £m
At 31 December 2013	62	168	162	392
Increase in year	47	3	91	141
Decrease in year	-	(25)	(6)	(31)
Utilisation	(47)	(21)	(36)	(104)
Discount unwind	2	6	2	10
At 31 December 2014	<u>64</u>	<u>131</u>	<u>213</u>	<u>408</u>

#### Analysis of provisions by maturity:

##### At 31 December 2014

Short term	26	23	155	204
Long term	<u>38</u>	<u>108</u>	<u>58</u>	<u>204</u>
	<u>64</u>	<u>131</u>	<u>213</u>	<u>408</u>

##### At 31 December 2013

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

#### Onerous lease provision

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

#### Asset Retirement Obligation (ARO)

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

#### Network share and other

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

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

# EE Limited

## Notes to the Financial Statements (continued)

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

Provisions for restructuring costs are recognised only when restructuring has been announced and the Group has started to implement a detailed formal plan.

On 9 July 2014, the Supreme Court issued its ruling on the ongoing legal dispute regarding non-geographic numbers between BT and various mobile operators and on 3 December 2014 it issued its final Order. On 17 December 2014 a payment was made in accordance with the Supreme Court Order. The Supreme Court Order remits certain other matters relating to remedies to the Competition Appeal Tribunal (“CAT”).

Further administrative and legal steps will now be undertaken by the CAT, EE and the other parties to determine the remaining financial impact. The Directors have established provisions associated with the dispute including for potential claims from other fixed operators as well as BT. The timing of cash flows associated with legal cases is generally uncertain. The Group has now reached a confidential agreement with one operator regarding its claims in relation to the dispute, which is taken into account within the established provisions.

### 27. Pensions – Group and Company

#### Defined contribution pension scheme

The pension cost for the defined contribution scheme, which represents contributions payable by the Group, amounted to £23 million (2013: £18 million). Included in other creditors is £2 million (2013: £2 million) in respect of contributions payable to the scheme.

#### Defined benefit pension scheme

The following summarises the movement in the EE Pension Trustee Limited pension scheme (“the DB pension scheme”) – a defined benefit scheme – for the twelve months ended 31 December 2014. The DB pension scheme was established on 1 March 2000 with benefits based on final remuneration and length of service. Assets are held in a separately administered trust. A full actuarial valuation of the defined benefit scheme using the projected unit basis was carried out as at 31 December 2012 by actuaries AON Hewitt Associates Limited.

The EE Defined Benefit pension scheme was closed to future accrual from 30 June 2014, resulting in the pension liability being reduced by £28 million and the curtailment revaluation arising has been recognised in the income statement (past service cost) in the period.

#### Profile of the Scheme

The defined benefit obligation includes benefits for deferred members and current pensioners. Broadly, around 89% to deferred members and 11% to current pensioners.

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

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

#### Funding requirements

UK legislation requires that pension schemes are funded prudently. The last funding valuation of the Scheme as at 31 December 2012 showed a deficit of around £130 million. The next funding valuation of the Scheme will be performed as at 31 December 2015.

The Company is currently paying deficit contributions of £20 million per annum which, along with investment returns from return-seeking assets, is expected to make good this shortfall by 31 October 2018. Prior to the closure of the scheme, the Company also paid contributions of 9.9% (from 1 January to 31 March 2014) and 13% (1 April to 30 June 2014) of pensionable salaries in respect of current accrual in the year.

# EE Limited

## Notes to the Financial Statements (continued)

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

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

	31 December 2014 %	31 December 2013 %
Inflation assumptions – RPI	3.0	3.4
Inflation assumptions – CPI	2.1	2.5
Rate of increase in salaries	4.0	4.4
Rate of increase for pensions in payment – accrued pre 6 April 2006	3.1	3.3
Rate of increase for pensions in payment – accrued post 6 April 2006	2.2	2.2
Discount rate	3.8	4.7

The mortality assumptions used were as follows:

	31 December 2014 Years	31 December 2013 Years
Longevity at age 65 for current pensioners	22.7	22.9
Longevity at age 65 for future pensioners (member age 45 today)	25.0	25.2

Summary of scheme assets:

	31 December 2014 Value £m	31 December 2013 Value £m
<b>Investments quoted in active markets</b>		
UK equity and unit trusts	121	161
Corporate bonds, derivatives and hedge funds	348	201
Property	61	51
Cash	12	26
	<hr/>	<hr/>
Fair value of the scheme assets	542	439
Present value of scheme obligations	(701)	(582)
	<hr/>	<hr/>
Liability in the Group and Company statements of financial position	(159)	(143)

# EE Limited

## Notes to the Financial Statements (continued)

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

Reconciliation of present value of scheme obligations:

	31 December 2014 £m	31 December 2013 £m
At 1 January	582	468
Current and past service cost (including curtailment gain)	(20)	14
Interest cost	27	23
Benefits paid	(7)	(5)
Actuarial loss	119	82
	<hr/>	<hr/>
At 31 December	701	582

Reconciliation of fair value of scheme assets:

	31 December 2014 £m	31 December 2013 £m
At 1 January	439	391
Interest on plan assets	21	19
Return on plan assets (excluding amounts included in net interest expense)	66	15
Benefits paid	(7)	(5)
Company contributions	23	19
	<hr/>	<hr/>
At 31 December	542	439

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

The actual return on plan assets was a £87 million gain (2013: £34 million gain).

Movement in the deficit in the year:

	31 December 2014 £m	31 December 2013 £m
Opening deficit in the scheme at 1 January	(143)	(77)
Current year service cost	20	(14)
Contributions	23	19
Other finance (loss)	(6)	(4)
Actuarial (loss)	(53)	(67)
	<hr/>	<hr/>
Closing deficit in scheme at 31 December	(159)	(143)

# EE Limited

## Notes to the Financial Statements (continued)

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

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

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
<b>Operating cost</b>		
Current service cost	8	14
Past service cost (including curtailments)	(28)	-
	<hr/>	<hr/>
Pension costs	(20)	14
	<hr/>	<hr/>
<b>Financing cost</b>		
Interest on net defined benefit liability	6	4
	<hr/>	<hr/>

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

	31 December 2014 £m	31 December 2013 £m
Return on scheme assets excluding amounts recognised in interest income	66	15
Actuarial (losses) arising from changes in the financial assumptions	(124)	(51)
Actuarial gains/(losses) arising from the changes in the demographic assumptions	5	(9)
Actuarial (losses) arising from experience	-	(22)
	<hr/>	<hr/>
Actuarial (loss) recognised in the consolidated statement of comprehensive income	(53)	(67)
	<hr/>	<hr/>

Under the current schedule of contributions the Group is expected to contribute £20 million to the scheme in the twelve months to 31 December 2015.

The effect of a 0.25% movement in the discount rate used of 3.8% would be as follows:

	3.6%	4.1%
	£m	£m
Discount rate		
Deficit in scheme at end of year	217	107
	<hr/>	<hr/>

# EE Limited

## Notes to the Financial Statements (continued)

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

The effect of a 0.25% movement in the RPI and CPI inflation rate assumptions of 3.0% and 2.1% respectively would be as follows:

Inflation rate	Decrease £m	Increase £m
Deficit in scheme at end of year	108	205

The effect of a one year increase in life expectancy is a deficit in the scheme at the end of the year of £179 million.

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

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

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

	2014 £m	2013 £m	2012 £m	2011 £m
Plan assets	542	439	391	356
Defined benefit obligations	(701)	(582)	(468)	(408)
Deficit	(159)	(143)	(77)	(52)

### 28. Share capital and reserves

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

#### Share capital – Group and Company

	31 December 2014 £m	31 December 2013 £m
<b>Issued and fully paid</b>		
11,025,153 Ordinary 'A' shares of £1 each	11	11
11,025,153 Ordinary 'B' shares of £1 each	11	11
	22	22



# EE Limited

## Notes to the Financial Statements (continued)

### 28. Share capital and reserves (continued)

#### Share premium account – Group and Company

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

#### Capital contribution reserve – Group and Company

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

#### New basis reserve - Group

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

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

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

### 29. Dividends paid

Group and Company	Year ended 31 December 2014	Year ended 31 December 2013
	£m	£m
Dividends declared and paid	551	458
Dividend per share (£ / share)	£24.99	£20.77

# EE Limited

## Notes to the Financial Statements (continued)

### 30. Related party transactions Group and Company

The Group's significant related parties are the companies within the Orange S.A. ("Orange") group and companies within the Deutsche Telekom A.G. ("DT") group.

The following table sets out the trading transactions between the Group and related parties during the years ended 31 December 2014 and 31 December 2013.

Group and Company		Sales to related parties	Purchases from related parties	Due to related parties	Due from related parties	Loans from related parties	Accrued interest payable	Cash deposits with related parties
		£m	£m	£m	£m	£m	£m	£m
Orange	2014	16	110	35	23	-	-	179
	2013	45	128	45	38	-	-	181
Deutsche Telekom	2014	9	207	50	32	-	-	179
	2013	10	208	41	16	-	-	181
<b>Group</b>								
Associates	2014	-	-	-	-	-	-	-
	2013	-	12	-	-	-	-	-
Joint Ventures	2014	3	-	-	1	-	-	-
	2013	1	-	-	1	-	-	-
<b>Company</b>								
Associates	2014	-	-	-	-	-	-	-
	2013	-	12	-	-	-	-	-
Joint Ventures	2014	3	-	-	1	-	-	-
	2013	1	-	-	1	-	-	-
Subsidiaries	2014	-	-	1	-	(2,082)	(37)	-
	2013	-	-	-	-	(2,153)	(36)	-

#### Key management personnel

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

#### Defined benefit pension scheme

Transactions with the defined benefit scheme EE Pension Trustee Limited are disclosed in note 27.

There were no material transactions with any other related parties.

# EE Limited

## Notes to the Financial Statements (continued)

### 31. Capital and financial commitments

#### Finance leases – Group and Company

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

	31 December 2014 £m	31 December 2013 £m
Not later than one year	2	-
After one year but not more than five years	3	-
After five years	-	-
	<u>5</u>	<u>-</u>

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

	31 December 2014 £m	31 December 2013 £m
Not later than one year	2	-
After one year but not more than five years	3	-
After five years	-	-
	<u>5</u>	<u>-</u>

#### Operating leases – Group and Company

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

	31 December 2014 £m	31 December 2013 £m
Not later than one year	251	239
After one year but not more than five years	686	721
After five years	426	455
	<u>1,363</u>	<u>1,415</u>

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

Lease payments for operating leases expensed in the year was £293 million (year ended 31 December 2013: £312 million).

#### Purchase commitments – Group and Company

The Group has £258 million of device commitments (2013: £225 million).

#### Capital commitments – Group and Company

The Group and Company has £461 million of capital commitments at 31 December 2014 (2013: £142 million), including their share of the MBNL joint arrangement's capital commitments of £31 million (2013: £26 million).

# EE Limited

## Notes to the Financial Statements (continued)

### 31. Capital and financial commitments (continued)

#### Contingent liabilities

The Group had no significant contingent liabilities or guarantees at 31 December 2014 (2013: £nil).

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

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

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

#### Market risk – Group and Company

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

The sensitivity analyses in the following sections relate to the position as at 31 December 2014 and 31 December 2013.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating rate interest rates and the proportion of financial instruments in foreign currencies are constant on the hedge designations in place at 31 December 2014 and 31 December 2013.

#### Interest rate risk – Group and Company

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

	Change in interest rate	Effect on loss before tax £m	Effect on equity £m
31 December 2014	+1%	(4)	-
	-1%	4	-
31 December 2013	+1%	(4)	-
	-1%	4	-

In order to manage its foreign currency risk, the Group has engaged in cross-currency interest swaps. Its interest rate swap portfolio is summarised in note 25.

# EE Limited

## Notes to the Financial Statements (continued)

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

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

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

	31 December 2014			31 December 2013		
	Fixed	Floating	Total	Fixed	Floating	Total
<b>Financial liabilities</b>	£m	£m	£m	£m	£m	£m
Sterling	800	438	1,238	800	438	1,238
Euro at year end rates	854	-	854	915	-	915
	<u>1,654</u>	<u>438</u>	<u>2,092</u>	<u>1,715</u>	<u>438</u>	<u>2,153</u>

Fixed rate borrowings had a weighted average interest rate of 3.4% at 31 December 2014 (2013: 3.4%) with the weighted average time for which rates are fixed being 3.2 years (2013: 4.2 years). Floating rate borrowings and cash deposit interest rates are based upon LIBOR.

	31 December 2014			31 December 2013		
	Floating	Non-interest bearing	Total	Floating	Non-interest bearing	Total
<b>Financial assets</b>	£m	£m	£m	£m	£m	£m
Sterling	359	52	411	362	61	423
	<u>359</u>	<u>52</u>	<u>411</u>	<u>362</u>	<u>61</u>	<u>423</u>

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

As at 31 December 2014 the Group had £854 million (2013: £915 million) of long term loans designated in Euros. The foreign currency risk attached to these loans is managed using cross currency interest rate swaps. This is described under interest rate risk in note 25.

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

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

# EE Limited

## Notes to the Financial Statements (continued)

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

A sensitivity analysis of the Group's and the Company's exposure to foreign exchange risk, based on balances as at the year ended 31 December 2014, is as follows:

	31 December 2014		31 December 2013	
	Income statement gain/(loss) £m	Effect on equity £m	Income statement gain/(loss) £m	Effect on equity £m
EUR strengthens +5% vs GBP	15	-	19	-
EUR weakens -5% vs GBP	(13)	-	(17)	-
USD strengthens +5% vs GBP	2	-	2	-
USD weakens -5% vs GBP	(2)	-	(2)	-

The above sensitivity analysis excludes foreign currency risk attached to long term loans designated in Euros.

#### Equity price risk – Group and Company

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

#### Credit risk – Group and Company

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

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

Credit risk related to the derivatives held for trading that are fair valued through the consolidated income statement are subject to the maximum exposure amount shown in note 25 and in the liquidity table below.

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

	31 December 2014 £m	31 December 2013 £m
Trade and other receivables	770	764
Cash at bank and in hand	411	423
Non-current loans	-	-

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

#### Liquidity risk

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

# EE Limited

## Notes to the Financial Statements (continued)

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

#### Group

The table below summarises the Group's financial liabilities at 31 December 2014 based on contractual undiscounted payments. Interest rates on variable rate loans have been based on the rates in effect at the year end.

At 31 December 2014	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Interest bearing loans and borrowings	-	63	1,288	970	-	2,321
Derivative financial instruments	-	5	2	2	-	9
Payments under onerous contracts undiscounted	-	34	34	19	14	101
Trade and other payables	-	1,992	-	-	-	1,992
	-	2,094	1,324	991	14	4,423
At 31 December 2013	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Interest bearing loans and borrowings	-	63	554	1,359	470	2,446
Derivative financial instruments	-	44	6	(4)	-	46
Payments under onerous contracts undiscounted	-	38	13	5	6	62
Trade and other payables	-	1,923	-	-	-	1,923
	-	2,068	573	1,360	476	4,477

#### Company

The Company's financial liabilities at 31 December 2014, based on contractual undiscounted payments. Interest rates on variable rate loans have been based on the rates in effect at the year end may be summarised as follows:

# EE Limited

## Notes to the Financial Statements (continued)

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

#### Company

At 31 December 2014	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Interest bearing loans and borrowings	2,092	-	-	-	-	2,092
Derivative financial instruments	-	5	2	2	-	9
Payments under onerous contracts undiscounted	-	34	34	19	14	101
Trade and other payables	-	1,995	-	-	-	1,995
	<u>2,092</u>	<u>2,034</u>	<u>36</u>	<u>21</u>	<u>14</u>	<u>4,197</u>
At 31 December 2013	On demand	Less than 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Interest bearing loans and borrowings	2,153	-	-	-	-	2,153
Derivative financial instruments	-	44	6	(4)	-	46
Payments under onerous contracts undiscounted	-	38	13	5	6	62
Trade and other payables	-	1,923	-	-	-	1,923
	<u>2,153</u>	<u>2,005</u>	<u>19</u>	<u>1</u>	<u>6</u>	<u>4,184</u>

#### Capital management – Group and Company

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

The Group has a financial policy to maintain a leverage ratio below 1.75 – 2.0 times Net Debt to EBITDA. The leverage ratio was 1.6 at 31 December 2014 (2013: 1.3). The Group's general dividend distribution policy is to pay to its shareholders 90% of organic cash flow (operational less investing cashflow).

#### Hedges

Details of the Group's cash flow hedging arrangements are included in note 25.

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

#### Group and Company

Since the reporting date, the Group has now reached a confidential agreement with one operator regarding its claims in relation to the non-geographic number dispute, which is taken into account within the established provisions.