Company Number: 2382161

Everything Everywhere Limited

Interim condensed consolidated financial statements

For the six months ended 30 June 2013

Everything Everywhere Limited

Consolidated income statement
For the 6 month period ended 30 June 2013

	Note	6 months ended 30 June 2013	6 months ended 30 June 2012
		Unaudited	
		£m	£m
Revenue	4.1	**3,211**	**3,314**
External purchases		(2,194)	(2,320)
Other operating income		34	18
Other operating expense		(181)	(212)
Staff costs		(229)	(233)
Amortisation and depreciation		(629)	(619)
Restructuring expenses		(46)	(16)
Group operating loss		**(34)**	**(68)**
Finance income		2	1
Finance expense		(52)	(37)
Finance costs net		(50)	(36)
Share of losses of joint ventures		(4)	-
Loss before tax		**(88)**	**(104)**
Income tax		2	3
Loss for the period attributable to the equity holders of the parent		**(86)**	**(101)**

Consolidated statement of comprehensive income
For the 6 month period ended 30 June 2013

	6 months ended 30 June 2013	6 months ended 30 June 2012
	Unaudited	
	£m	£m
Loss for the period attributable to the equity holders of the parent	**(86)**	**(101)**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Cash flow hedges		
- (Gain) / loss recycled in the profit and loss during the period	(49)	10
- Fair value gain / (loss) arising in the period	70	(16)
Deferred tax relating to cash flow hedges	(3)	2
Other comprehensive income / (loss) for the period	**18**	**(4)**
Total comprehensive loss for the period attributable to the equity holders of the parent	**(68)**	**(105)**

Everything Everywhere Limited

Consolidated statement of financial position
As at 30 June 2013 & 31 December 2012
Company number: 2382161

	Note	30 June 2013 Unaudited £m	31 December 2012 Audited £m
Non current assets			
Intangible assets	4.4	10,749	10,496
Property, plant and equipment	4.5	2,193	2,163
Associates and joint ventures		20	16
Other financial assets		152	111
Deferred tax asset		166	167
Derivative financial instruments		64	24
Other non current assets		23	25
Total non current assets		**13,367**	**13,002**
Current assets			
Inventories	4.6	105	125
Trade and other receivables		1,228	1,180
Derivative financial instruments		16	8
Cash and cash equivalents		391	846
Total current assets		**1,740**	**2,159**
Total assets		**15,107**	**15,161**
Current liabilities			
Trade and other payables		(2,174)	(2,128)
Provisions	4.7	(163)	(160)
Interest bearing loans and borrowings		(53)	(8)
Derivative financial instruments		(4)	(4)
Total current liabilities		**(2,394)**	**(2,300)**
Non current liabilities			
Derivative financial instruments		-	(7)
Provisions	4.7	(291)	(335)
Interest bearing loans and borrowings	4.8	(2,280)	(2,122)
Pension liability		(76)	(77)
Other non current liabilities		(6)	(3)
Total non current liabilities		**(2,653)**	**(2,544)**
Total liabilities		**(5,047)**	**(4,844)**
Total net assets		**10,060**	**10,317**

Consolidated statement of financial position (continued)
As at 30 June 2013 & 31 December 2012

	30June 2013 Unaudited £m	31 December 2012 Audited £m
Capital and reserves		
Share capital	22	22
Share premium account	1,638	1,638
Capital contribution reserve	196	196
Cash flow hedge reserve	20	2
Retained earnings	(2,879)	(2,604)
New basis reserve	11,063	11,063
Total equity	**10,060**	**10,317**

These interim financial statements were approved by the board of Directors on 19July 2013 and were signed on its behalf by

Neal Milsom
Director

Consolidated statement of changes in equity
For the 6 month period ended 30 June 2013

	Share capital	Share premium account	Capital contribution reserve	New basis reserve	Retained earnings	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m	£m
Unaudited							
At 1 January 2012	**22**	**1,638**	**196**	**11,063**	**(1,654)**	**(14)**	**11,251**
Loss for the period	-	-	-	-	(101)	-	(101)
Cash flow hedges							
Loss recycled through the profit & loss account	-	-	-	-	-	10	10
Fair value loss arising in the period	-	-	-	-	-	(16)	(16)
Deferred tax relating to cash flow hedges	-	-	-	-	-	2	2
Total comprehensive loss for the period	-	-	-	-	(101)	(4)	(105)
Dividends declared and paid	-	-	-	-	(543)	-	(543)
At 30 June 2012	**22**	**1,638**	**196**	**11,063**	**(2,298)**	**(18)**	**10,603**
Unaudited							
At 1 January 2013	**22**	**1,638**	**196**	**11,063**	**(2,604)**	**2**	**10,317**
Loss for the period	-	-	-	-	(86)	-	(86)
Cash flow hedges							
Gain recycled through the profit & loss account	-	-	-	-	-	(49)	(49)
Fair value gain arising in the period	-	-	-	-	-	70	70
Deferred tax relating to cash flow hedges	-	-	-	-	-	(3)	(3)
Total comprehensive income for the period	-	-	-	-	(86)	18	(68)
Dividends declared and paid	-	-	-	-	(189)	-	(189)
At 30 June 2013	**22**	**1,638**	**196**	**11,063**	**(2,879)**	**20**	**10,060**

Consolidated statement of cash flows
For the 6 month period ended 30 June 2013

	6 months ended 30 June 2013	6 months ended 30 June 2012
	Unaudited	
		Restated
	£m	£m
Operating activities		
Loss for the period	(86)	(101)
Adjustments to reconcile the loss for the period to cash generated from operations		
Depreciation and amortisation	629	619
Gain on disposal of property, plant and equipment	(15)	-
Change in other provisions (excluding discount unwind)	(47)	(20)
Income tax	(2)	(3)
Net finance expense	50	36
Share of losses of joint ventures	4	-
Changes in working capital requirements		
Decrease in inventories	20	16
(Increase) / decrease accounts receivable	(41)	75
Increase / (decrease) in trade accounts payable	56	(159)
Decrease in other long-term assets	2	22
Interest income received	2	5
Foreign exchange paid	-	(2)
Interest paid	(55)	(10)
Income tax paid	-	(1)
Net cash provided by operating activities	**517**	**477**
Investing activities		
Purchases of property, plant and equipment and intangible assets	(897)	(245)
Increase in non-current loans receivable	(41)	(20)
Investment in joint venture	(7)	-
Net cash used in investing activities	**(945)**	**(265)**

Consolidated statement of cash flows (continued)
For the 6 month period ended 30 June 2013

	6 months ended 30 June 2013	6 months ended 30 June 2012
	Unaudited	
		Restated
	£m	£m
Financing activities		
Proceeds from new borrowings		
Non-current borrowings	438	866
Transaction costs paid	-	(8)
Cash collateral – received / (paid)	44	(21)
Redemptions and repayments		
Non-current borrowings	(320)	(198)
Current borrowings	-	(374)
Dividends paid	(189)	(543)
Net cash used in financing activities	**(27)**	**(278)**
Net change in cash and cash equivalents	**(455)**	**(66)**
Cash and cash equivalents at the beginning of the period	846	290
Cash and cash equivalents at the end of the period	**391**	**224**

Notes to the interim condensed consolidated financial statements

1. General information

The interim condensed consolidated financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006.

The financial information for the year ended 31 December 2012 is based on the statutory accounts for that period. The auditor's report on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement made under Section 498(2) or (3) of the Companies Act 2006.

The interim condensed consolidated financial statements do not include all the information and disclosure included in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

The interim condensed consolidated financial statements are unaudited but have been reviewed by the auditors. Their review report is included at the end of this report.

The interim condensed consolidated financial statements for the period ended 30 June 2013 were approved by the board of Directors on 19 July 2013.

2. Background

Everything Everywhere Limited ("EE") is principally involved with the operation of a national digital wirefree personal communications network, and the provision of digital telecommunications services. The Group continues to invest in the development of digital mobile communications technology. EE as a Group trades under the brand names EE, Orange and T-Mobile.

Within the 6 months to 30 June 2013 the Group has made net loss of £86 million (6 months ended 30 June 2012: £101 million), and has paid a dividend of £189 million (6 months ended 30 June 2012: £543 million).

3. Accounting policies

3.1 Basis of preparation

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. These interim condensed consolidated financial statements have been prepared in accordance with IAS34 "Interim Financial Reporting" as issued by the International Accounting Standards Board and endorsed and adopted for use in the European Union. Consequently, the interim financial statements do not include all the disclosures that would be required in a full set of financial statements and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2012. The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2012, except for the adoption of new and amended standards noted in section 3.2.

The tax for the half year is based on the estimated effective tax rate for the year as a whole.

Some minor reclassifications of presentation of line items within the cashflow statement have been made to bring the presentation in the interim accounts in line with the 31 December 2012 annual financial statements.

Notes to the interim condensed consolidated financial statements (continued)

3.2 Adoption of new and current standards

Several new standards and amendments apply for the first time in 2013 as follows:

- IAS 1 Presentation of Items of Other Comprehensive Income (Amendments to IAS 1);
- IAS 19 (Revised 2011) – Employee benefits ("*IAS19R*")
- IFRS 7 - Disclosures – offsetting financial assets and liabilities;
- Annual improvements 2011:
    - IAS 1 - Financial statement presentation;
    - IAS 16 - Property, plant and equipment;
    - IAS 32 - Financial instruments: Presentation;
    - IAS 34 - Interim financial reporting;
- IFRS 13 - Fair Value measurement.

The above do not have a material impact on the financial position or performance of the Group as at 30 June 2013.

3.3 Going concern

The Group is expected to continue to generate positive operating cash flows for the foreseeable future.

The Group has a number of financing arrangements in place that it is reliant upon to remain a going concern. These remain extant for at least twelve months following the signature of these accounts. The Group has the ability to raise further funds under its European Medium Term Note Programme if required.

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 interim condensed consolidated financial statements for the 6 months ended 30 June 2013.

4. Explanatory notes

4.1 Revenue

	6 months ended 30 June 2013 £m	6 months ended 30 June 2012 £m
Mobile service revenue	2,843	2,989
Other	368	325
Total revenue	**3,211**	**3,314**

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

4.2 Operating segments

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 unified network. Due to these factors there are not considered to be separable identifiable operating segments for which financial information can be presented.

Notes to the interim condensed consolidated financial statements (continued)

4.3 Financial risk management

The Group monitors a variety of key performance indicators ("KPIs") as part of its financial risk management. These KPIs are not defined by IFRS and may not be comparable to other similarly-titled indicators used by other companies. They are provided as additional information only.

Earnings before interest, tax, depreciation and amortisation ("EBITDA")

	6 months ended 30 June 2013 £m	6 months ended 30 June 2012 £m
Loss before tax	(88)	(104)
Add back:		
Net finance costs	50	36
Share of losses of associates	4	-
Amortisation and depreciation	629	619
EBITDA	**595**	**551**
Add back:		
Management and brand fees	93	106
Restructuring costs	46	16
Adjusted EBITDA	**734**	**673**

Net debt

The Group monitors the net debt position on a monthly basis as this forms the basis the Group's bank covenant agreements. The key sources of finance are as follows:

- a £437.5 million term loan with a maturity date of 30 November 2014
- a £437.5 million revolving credit facility ("RCF") with a maturity date of 30 November 2016
- a £350 million European Investment Bank loan with a maturity date of 28 December 2017
- a £3,000 million euro medium term note programme ("EMTN") under which the Group has made the following issuances:
  - €500 million with a maturity date of 6 February 2017;
  - €600 million with a maturity date of 3 August 2018; and
  - £450 million with a maturity date of 28 March 2019.

Net debt is monitored using the principal amounts outstanding and not the amortised cost basis used in the balance sheet.

Net financial debt	30 June 2013 £m	31 December 2012 £m
Revolving credit facility	118	-
Syndicated bank loans	438	438
€500m 3.5% notes due 2017	427	409
€600m 3.25% notes due 2018	513	490
£450m 4.375% notes due 2019	450	450
Finance lease liabilities	1	1
European Investment Bank loan	350	350
Cash collateral received	53	8
Financial indebtedness	**2,350**	**2,146**
Less:		
Cash	(391)	(846)
Net Financial Debt	**1,959**	**1,300**

4.4 Intangible assets

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that it may be impaired. The Group's impairment test for goodwill is based upon value-in-use calculations that use a discounted cash flow model. The key assumptions used to determine the valuation of goodwill were disclosed in the annual financial statements for the year ended 31 December 2012.

The directors consider that no indicators of impairment existed as at 30 June 2013.

Customer relationships

The directors consider that no indicators of impairment existed as at 30 June 2013 in relation to the customer relationship intangible asset.

Acquisition of intangible assets

In February 2013 the Group acquired a 4G mobile telephone licence at a cost of £619 million, the cash paid in respect of this licence was £599 million during the 6 months to 30 June 2013, the remaining balance is included within trade and other payables. Amortisation will commence when the asset is available for use. Additionally, £60 million of other intangible assets were acquired.

4.5 Acquisitions and disposals of items of property, plant and equipment

The cost of acquisitions of items of property, plant and equipment in the interim period totalled £235 million (6 months ended 30 June 2012: £196 million). The majority of this value relates to Network and IT.

The Group disposed of property, plant and equipment during the period, which resulted in a £15 million gain on the disposal (6 months ended 30 June 2012: nil).

4.6 Write-down of inventories to net realisable value and the reversal of such write-down

The amount of write-down of inventories recognised as an expense within the income statement is £15.7 million (6 months ended 30 June 2012: £8.8 million).

Notes to the interim condensed consolidated financial statements (continued)

4.7 Provisions

The Group has continued its integration and decommissioning programme, resulting in a £41 million reduction of provisions arising from utilisation and reassessment of these provisions in the 6 months to 30 June 2013.

4.8 Interest bearing loans and borrowings

Group	Interest rate %	Maturity	30 June 2013 £m	31 December 2012 £m
Non-current				
Euro medium term notes – five year bond	3.5	6 February 2017	424	408
Euro medium term note – seven year bond	4.375	28 March 2019	445	444
Euro medium term note – six year bond	3.25	3 August 2018	509	486
Revolving credit facility	LIBOR plus 1.05%	November 2016	116	-
Syndicated loan facilities	LIBOR plus 1.3%	November 2014	436	434
European Investment Bank loan	2.21	December 2017	350	350
			2,280	2,122

The carrying amounts for financial liabilities approximate their fair value.

4.9 Capital commitments

The Group has £174 million of capital commitments as at 30 June 2013 (31 December 2012: £279 million).

4.10 Financial Instruments

Risk management activities – cash flow hedges

As at 30 June 2013, the Group held foreign currency forward contracts designated as hedges in respect of certain of its operating cash flows which are designated in foreign currencies. The Group manages the interest rate and foreign currency risks of its Euro designated loans by utilising cross currency interest rate swaps ("CCIRS"). These hedges were assessed to be effective and an unrealised gain of £70 million was included in other comprehensive income.

Borrowing and repayment of debt

The Groups borrowings are described in note 4.8 above.

The revolving credit facility was fully drawn down in January 2013 and subsequently during the period, £320 million was repaid.

Notes to the interim condensed consolidated financial statements (continued)

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.

As at 30 June 2013 the Group held the following financial instruments carried at fair value in the statement of financial position:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Foreign exchange forward contracts	-	16	-	16
Cross currency interest rate swaps	-	64	-	64
Financial liabilities				
Foreign exchange rate forward contracts	-	(4)	-	(4)
Cross currency interest rate swaps	-	-	-	-
Total	-	76	-	76

Valuation techniques

The foreign currency contracts and CCIRS are measured based upon observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. All contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own credit risk.

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

4.11 Related party transactions

The Group's significant related parties are its joint venture companies within the Orange S.A. ("Orange") group (formerly France Telecom S.A.), 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 six months ended 30 June 2013 and 2012, together with trading balances with related parties as at 30 June 2013 and 31 December 2012.

Notes to the interim condensed consolidated financial statements (continued)

		Sales to related parties	Purchases from related parties	Due to related parties	Due from related parties	Loans to related parties	Accrued interest receivable	Cash deposits with related parties
		£ m	£ m	£ m	£ m	£ m	£ m	£ m
Orange S.A.	2013	6	65	48	18	-	-	120
	2012	7	74	53	26	-	-	340
Deutsche Telekom A.G.	2013	5	103	49	15	-	-	120
	2012	5	175	104	16	-	1	340
Joint ventures	2013	-	28	-	6	151	2	1
	2012	-	13	-	28	110	1	2

4.12 Subsequent material events

On 2 July 2013, a reduction in the corporation tax rate to 21%, with effect from 1 April 2014 and a further reduction to 20% effective from 1 April 2015, were substantively enacted. Had the substantive enactment occurred prior to the reporting date, the Group would have further written down its net deferred tax asset by £16 million.

On 19 July 2013, the Directors recommended an interim dividend of £159 million to be paid in September 2013. No liability is recorded in the Interim Condensed Consolidated Financial Statements in respect of the dividend, because it had not been approved at the balance sheet date.

Independent review report to the members of Everything Everywhere Limited

Introduction

We have been engaged by the company to review the condensed consolidated set of financial statements in the interim financial report for the six months ended 30 June 2013 which comprises the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows and explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

As disclosed in note 3.1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim financial report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Ernst + Young LLP

Ernst & Young LLP
London
19 July 2013