EE Limited

Company Number: 2382161

EE Limited

Interim condensed consolidated financial statements

For the six months ended 30 June 2014

EE Limited

Consolidated income statement
For the 6 month period ended 30 June 2014

	Note	6 months ended 30 June 2014 Unaudited £m	6 months ended 30 June 2013 Unaudited Restated £m
Revenue	4.1	**3,114**	**3,211**
External purchases		(2,069)	(2,194)
Other operating income		21	34
Other operating expense		(181)	(169)
Staff costs		(202)	(229)
Amortisation and depreciation		(606)	(639)
Restructuring expenses		(26)	(46)
Group operating profit/(loss)		**51**	**(32)**
Finance income		-	-
Finance expense		(52)	(52)
Finance costs net		(52)	(52)
Share of losses of associates and joint ventures		(3)	(4)
Loss before tax		**(4)**	**(88)**
Income tax		5	2
Profit/(loss) for the period attributable to the equity holders of the parent		**1**	**(86)**

EE Limited

Consolidated statement of comprehensive income
For the 6 month period ended 30 June 2014

	6 months ended 30 June 2014	6 months ended 30 June 2013
	Unaudited	
	£m	£m
Profit/(loss) for the period attributable to the equity holders of the parent	**1**	**(86)**
Other comprehensive income		
Items that may be subsequently reclassified to Income Statement		
Cash flow hedges		
- Loss / (gain) recycled in the Income Statement during the period	10	(49)
- Fair value (loss) / gain arising in the period	(3)	70
Deferred tax relating to cash flow hedges	-	(3)
Other comprehensive income for the period	**7**	**18**
Total comprehensive income/ (loss) for the period attributable to the equity holders of the parent	**8**	**(68)**

EE Limited

Consolidated statement of financial position

As at 30 June 2014 & 31 December 2013

Company number: 2382161

	Note	30 June 2014 Unaudited £m	31 December 2013 Audited £m
Non current assets			
Intangible assets	4.4	10,072	10,394
Property, plant and equipment	4.5	2,297	2,313
Associates and joint ventures		5	6
Deferred tax asset		177	173
Derivative financial instruments		34	49
Other non current assets		25	22
Total non current assets		**12,610**	**12,957**
Current assets			
Inventories		90	85
Trade and other receivables		1,296	1,147
Cash and cash equivalents		135	423
Total current assets		**1,521**	**1,655**
Total assets		**14,131**	**14,612**
Current liabilities			
Trade and other payables		(2,135)	(2,152)
Provisions		(165)	(164)
Interest bearing loans and borrowings		(15)	(41)
Derivative financial instruments		(14)	(11)
Total current liabilities		**(2,329)**	**(2,368)**
Non current liabilities			
Derivative financial instruments		(7)	-
Provisions		(201)	(228)
Interest bearing loans and borrowings	4.8	(2,108)	(2,139)
Pension liability		(119)	(143)
Other non current liabilities		(18)	(1)
Total non current liabilities		**(2,453)**	**(2,511)**
Total liabilities		**(4,782)**	**(4,879)**
Total net assets		**9,349**	**9,733**

Consolidated statement of financial position (continued)
As at 30 June 2014 & 31 December 2013

	30June 2014 Unaudited £m	31 December 2013 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	13	6
Retained earnings	(3,583)	(3,192)
New basis reserve	11,063	11,063
Total equity	**9,349**	**9,733**

These interim financial statements were approved by the board of Directors on 24 July 2014 and were signed on its behalf by

Neal Milsom
Director

EE Limited

Consolidated statement of changes in equity
For the 6 month period ended 30 June 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
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 profit or loss	-	-	-	-	-	(49)	(49)
Fair value gain arising in the period	-	-	-	-	-	70	70
Deferred tax relating to cash flow hedges	-	-	-	-	-	(3)	(3)
Total comprehensive loss 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**
Unaudited							
At 1 January 2014	**22**	**1,638**	**196**	**11,063**	**(3,192)**	**6**	**9,733**
Profit for the period	-	-	-	-	1	-	1
Cash flow hedges							
Loss recycled through profit or loss	-	-	-	-	-	10	10
Fair value loss arising in the period	-	-	-	-	-	(3)	(3)
Deferred tax relating to cash flow hedges	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	1	7	8
Dividends declared and paid	-	-	-	-	(392)	-	(392)
At 30 June 2014	**22**	**1,638**	**196**	**11,063**	**(3,583)**	**13**	**9,349**

EE Limited

Consolidated statement of cash flows
For the 6 month period ended 30 June 2014

	6 months ended 30 June 2014	6 months ended 30 June 2013
	Unaudited	
		Restated
	£m	£m
Operating activities		
Profit / (loss) for the period	1	(86)
Adjustments to reconcile the profit / (loss) for the period to cash generated from operations		
Depreciation and amortisation	606	639
Gain on disposal of property, plant and equipment	(2)	(15)
Difference between pension contributions and amounts recognised in income statement	(34)	-
Change in other provisions (excluding discount unwind)	(32)	(47)
Income tax	(5)	(2)
Net finance expense	52	52
Share of losses of associates and joint ventures	3	4
Changes in working capital requirements		
(Increase) / decrease in inventories	(5)	20
(Increase) in trade and other receivables	(149)	(68)
(Decrease) / Increase in trade and other payables	10	53
(Increase) / Decrease in other long-term assets	(3)	2
Interest income received	-	-
Foreign exchange paid	-	-
Interest received / (paid) and interest rates effects on derivatives	(44)	(55)
Income tax (paid) / received	-	-
Net cash provided by operating activities	**398**	**497**
Investing activities		
Purchases of property, plant and equipment and intangible assets	(268)	(918)
Investment in joint arrangements	-	(7)
Net cash used in investing activities	**(268)**	**(925)**

Consolidated statement of cash flows (continued)
For the 6 month period ended 30 June 2014

	6 months ended 30 June 2014	6 months ended 30 June 2013
	Unaudited	
		Restated
	£m	£m
Financing activities		
Proceeds from new borrowings		
Non-current borrowings	-	438
Cash collateral – (paid) / received	(26)	44
Redemptions and repayments		
Decrease in long term borrowings	-	(320)
Dividends paid	(392)	(189)
Net cash used in financing activities	**(418)**	**(27)**
Net change in cash and cash equivalents	**(288)**	**(455)**
Cash and cash equivalents at the beginning of the period	423	846
Cash and cash equivalents at the end of the period	**135**	**391**

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 2013 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 for the year ended 31 December 2013.

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 2014 were approved by the board of Directors on 24 July 2014.

2. Background

EE Limited ("EE" or "the Group") 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 2014 the Group has made net profit of £1 million (6 months ended 30 June 2013: net loss of £86 million), and has paid a dividend of £392 million (6 months ended 30 June 2013: £189 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 2013. The accounting policies adopted are consistent with those applied in the consolidated financial statements for the year ended 31 December 2013, except for the adoption of new and amended standards noted in section 3.2.

The tax for the 6 months ended 30 June 2014 is based on the estimated effective tax rate for the year ending 31 December 2014.

Notes to the interim condensed consolidated financial statements (continued)

The Consolidated Income Statement and Consolidated Statement of Cash Flows for the 6 months ended 30 June 2013 have been restated as a result of the adoption of IFRS 10, 11, 12 and IAS 28R in the year ended 31 December 2013.

As a result of the adoption of these standards EE now accounts for its share of the income, expenditure, assets and liabilities of the joint operation, rather than under equity accounting as in the prior year.

Impact on Group Income Statement:

	6 months ended 30 June 2013
	£m
Other operating expense	12
Amortisation and depreciation	(10)
Group operating profit	**2**
Finance expense	(2)
Finance costs net	(2)
Profit for the period attributable to the equity holders of the parent	**-**

This transaction did not have an impact on Other Comprehensive Income or net cash flows.

Notes to the interim condensed consolidated financial statements (continued)

3.2 Adoption of new and current standards

The following new standards and amendments became effective as of 1 January 2014:

- *Offsetting Financial Assets and Financial Liabilities* — Amendments to IAS 32 *Financial Instruments: Presentation*
- *Recoverable Amount Disclosures for Non-Financial Assets* — Amendments to IAS 36 *Impairment of Assets*
- *Novation of Derivatives and Continuation of Hedge Accounting* — Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*

The above do not have a material impact on the financial position or performance of the Group as at 30 June 2014.

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 approval of these interim 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 2014.

4. Explanatory notes

4.1 Revenue

	6 months ended 30 June 2014 £m	6 months ended 30 June 2013 £m
Mobile service revenue	2,795	2,843
Other	319	368
Total revenue	**3,114**	**3,211**

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 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.

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 2014 £m	6 months ended 30 June 2013 Restated £m
Loss before tax	(4)	(88)
Add back:		
Net finance costs	52	52
Share of losses of associates and joint ventures	3	4
Amortisation and depreciation	606	639
EBITDA	**657**	**607**
Add back:		
Management and brand fees	77	93
Restructuring costs	26	46
Adjusted EBITDA	**760**	**746**

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 16 November 2016
- a £437.5 million revolving credit facility ("RCF") with a maturity date of 16 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.

Notes to the interim condensed consolidated financial statements (continued)

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:

Net financial debt	30 June 2014 £m	31 December 2013 £m
Revolving credit facility	-	-
Syndicated bank loans	438	438
€500m 3.5% notes due 2017	400	416
€600m 3.25% notes due 2018	480	499
£450m 4.375% notes due 2019	450	450
Finance lease liabilities	1	-
European Investment Bank loan	350	350
Cash collateral received	15	41
Financial indebtedness	**2,134**	**2,194**
Less:		
Cash	(135)	(423)
Net Financial Debt	**1,999**	**1,771**

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 2013.

The directors consider that no indicators of impairment existed as at 30 June 2014.

Spectrum intangible assets

In February 2013 the Group acquired a 4G mobile telephone licence at a cost of £619 million. EE does not consider any indication of impairment exists as at 30 June 2014.

Amortisation will commence when the asset is available for use.

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 £268 million (6 months ended 30 June 2013: £299 million). The majority of this value relates to Network and IT.

Notes to the interim condensed consolidated financial statements (continued)

4.6 Events in the period

The Group has continued its integration and decommissioning programme, contributing to a net £26 million reduction (£41 million in the 6 months 30 June 2013) of provisions arising from £41 million utilisation (2013: £23 million) and net £15 million increase (2013: £18 million decrease) due to reassessment in the 6 months to 30 June 2014.

The EE Defined Benefit pension scheme was closed to future accrual from 30 June 2014, resulting in the pension liability being reduced by £26 million and the curtailment revaluation arising has been recognised in the income statement in the period.

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 £17 million rebate being recognised in other operating expenses.

During 2014 EE has sold site access rights for £2 million (£15 million in the period to 30 June 2013).

4.7 Income Tax

The income tax credit for the period comprises a current year credit based upon current year loss before tax at the estimated weighted average full year effective tax rate (32%) together with a tax credit in respect of prior years to align the financial statements with the latest submitted tax returns.

4.8 Interest bearing loans and borrowings

Group	Interest rate %	Maturity	30 June 2014 £m	31 December 2013 £m
Non-current				
Euro medium term notes – five year bond	3.5	6 February 2017	399	413
Euro medium term note – seven year bond	4.375	28 March 2019	446	445
Euro medium term note – six year bond	3.25	3 August 2018	478	496
Revolving credit facility	LIBOR (1 mth) plus 0.95%	November 2016	-	-
Syndicated loan facilities	LIBOR (6 mth) plus 0.95%	November 2016	435	435
European Investment Bank loan	2.21	December 2017	350	350
			2,108	2,139

The carrying amounts for financial liabilities approximate their fair value.

4.9 Capital commitments

The Group has £111 million of capital commitments as at 30 June 2014 (31 December 2013: £142 million).

Notes to the interim condensed consolidated financial statements (continued)

4.10 Financial Instruments

Risk management activities – cash flow hedges

As at 30 June 2014, 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 loss of £3 million was included in other comprehensive income.

Borrowing and repayment of debt

The Group's borrowings are described in note 4.8 above.

The revolving credit facility of £437.5 million has been partially utilised in the six months ended 30 June 2014 in order to service working capital requirements. The balance drawn down in the period has been fully repaid at 30 June 2014 and thus at 30 June 2014 the full amount is available for future draw down.

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 2014 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	-	-	-	-
Cross currency interest rate swaps	-	34	-	34
Financial liabilities				
Foreign exchange rate forward contracts	-	(14)	-	(14)
Cross currency interest rate swaps	-	(7)	-	(7)
Total	-	13	-	13

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 minimising 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.

Notes to the interim condensed consolidated financial statements (continued)

4.11 Related party transactions

The Group's significant related parties are the 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 2014 and 2013, together with trading balances with related parties as at 30 June 2014 and 31 December 2013.

		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.	2014	6	56	44	15	-	-	39
	2013	6	65	48	18	-	-	120
Deutsche Telekom A.G.	2014	4	104	49	24	-	-	39
	2013	5	103	49	15	-	-	120
Joint ventures	2014	1	-	-	1	-	-	-
	2013	-	-	-	-	-	-	-
Associates	2014	-	-	-	-	-	-	-
	2013	-	10	-	-	-	-	-

4.12 Events after the balance sheet date

On 9 July 2014, the Supreme Court issued its ruling on the ongoing legal dispute between BT and various mobile operators. In accordance with the draft order, EE submitted to the Supreme Court on 23 July 2014 its written submission on the precise form of the final order. Further administrative and legal steps will now be undertaken by the Supreme Court, EE and the other parties to determine the final financial impact. Due to the level of uncertainty relating to the impact of the final Supreme Court order the existing provisions associated with the dispute will be reassessed once the Court process is complete.

On 24 July 2014, the Directors recommended an interim dividend of £120 million to be paid in September 2014. 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.

EE Limited

Independent review report to the members of EE 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 2014 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 2014 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
24 July 2014