

Company number: 02382161

EE Limited
Report and Financial Statements
For the year ended 31 March 2023

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EE Limited

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EE Limited

Directors and auditor

Directors

Marc Allera
Stephen Harris
Stephen Best (resigned 26 May 2023)
Jeffrey Langlands
John Watson

Secretary

Newgate Street Secretaries Limited

Registered office

1 Braham Street
London
United Kingdom
E1 8EE

Independent Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Strategic report

The Directors present their strategic report for the year ended 31 March 2023.

Review of the business and future developments

The overall strategy of EE Limited ("EE" or "Company") is part of that of BT Group Plc ("the Group"), which is outlined in the Group Strategy Review in the Group's Annual Report and Financial Statements for the year ended 31 March 2023, which does not form part of this report.

Key financial performance indicators for EE include revenue and EBITDA.

Revenue for the financial year was £6,913 million (2022: £6,856 million) and EBITDA (See Note 3) was £2,714 million for the financial year (2022: £2,605 million). Revenue was up 0.8% mainly due to increased service revenue as a result of the 2022 annual contractual price rise and higher roaming offset by a continuation of shift from handset to SIM only contracts and lower equipment revenue driven by lower volumes partly offset by a higher mix of premium handsets. EBITDA was up due to increased service revenue along with tight cost management, including lower indirect mobile commissions.

During the year, BT Group announced that EE would become the flagship Consumer brand of the Group to allow a more streamlined approach to the market. As a consequence of this, 8,561 employees were transferred via TUPE from BT plc to EE Limited leading to an increase in staff costs despite tight cost management.

The EE consumer 5G ready base now stands at over 9.1 million with the continued rollout at pace of EE's 5G network. The 5G network now covers two thirds of the UK population. Churn continues to remain stable in a competitive market and latest Ofcom complaints data shows EE is lower than or in line with industry average for mobile, broadband and landline. RootMetrics again named EE as the UK's best network for nine and a half years in a row.

An operating profit of £1,722 million (2022: £1,589 million) was realised during the financial year.

The 5G bases, award-winning mobile network, low churn, index linked contracts, strong brand NPS and continued converged growth, provide the Company with strong foundations heading into the financial year ending 31 March 2024, despite the challenging market conditions and increased energy costs.

Financial position and liquidity

The Statement of financial position on pages 19 and 20 of the financial statements shows EE's overall financial position at the end of the year.

The net assets of the Company increased from £7,688 million at 31 March 2022 to £8,570 million at 31 March 2023, due to the profit for the year, partially offset by dividends paid.

EE closed the year with cash of £26 million, with any excess balances loaned to the Group under cash clearing agreements. As at the year end, these amounted to £2,765 million (2022: £1,252 million). For further details of current and long term amounts payable and due from the parent and fellow subsidiary undertakings, see notes 15 to 17 of the financial statements. The triennial valuation of the defined benefit pension scheme was performed as at 31 December 2021 and agreed in March 2023, the Company has agreed a deficit contribution scheme with the Trustees.

Risk and uncertainties

How the Company manages risk

EE has continued to adopt the BT corporate risk management framework introduced in 2020 to assist risk owners make the right decisions and take on the right risks, whilst operating with integrity. The risk management framework provides reasonable (but not absolute) assurance that risks and uncertainties posing a threat to the Company's business objectives are identified, assessed, managed, and monitored.

EE's Principal Risk and Uncertainties

The principal risks are listed below and are categorised into strategic, compliance and operational risks.

Strategic risks

- Strategy and Competition

Strategic report (continued)

Risk and uncertainties (continued)

Compliance

- Data Regulation
- Communications and Financial Regulation

Operational risks

- Network and Technology
- Transformation Delivery
- People

Please refer to the Director's report for further information on financial risk management.

Strategic Risks

Strategy and Competition

Risk description:

- Maintaining customer value during the economic uncertainty
- Ability over future price increases
- Delayed expansion of customer financing capability reduces market share.

Why this risk is important to EE:

- Price rises may affect the ability to retain customers due to cheaper options being available as customers seek to reduce their bills.
- Government or regulatory intervention may limit the ability to carry out price rises with no right to churn. This may materialise in EE losing the ability to add inflationary or other prices without churn.
- Restrictions on being able to offer customers extended payment and financing payment capability means that EE could potentially struggle to expand market share.

Examples of how the Company manages the risk:

- Driving of value for money messages to customers & deliver portfolio and pricing changes.
- Sensitivity analysis performed over possible governmental and regulatory scenarios.
- Development of alternative price rise initiatives and continuing to exclude certain vulnerable groups from increases.
- Explore potential outsourcing opportunities for financing.
- Expand customer financing options into existing EE channels.

Compliance Risks

Data Regulation

Risk description:

- The ability to address data management improvements.

Why this risk is important to EE:

- Consumer's ability to demonstrate adequate controls for data landscaping, governance of Cloud platforms, assurance of data retention & 3rd party customer data assurance that could lead to General Data Protection Regulation (GDPR) failings.

Strategic report (continued)

Risk and uncertainties (continued)

Compliance Risks (continued)

Data Regulation (continued)

Examples of how the Company manages the risk:

- Define and implement controls to ensure consumer data use receives appropriate authorisation and sign off from Consumer Data Stewards
- Deliver effective data landscaping model.
- Delivery governance model and end to end playbook for Cloud solutions.

Communications and Financial Regulation

Risk description:

- Investigation into historical price rises leading to refunds.
- Delays in Shared Rural Network (SRN).

Why this risk is important to EE:

- Ofcom's investigation into the transparency to customers of historical contract price rises could lead to EE having to refund some customers going back several years.
- Slower than expected speed of network deployment may result in not meeting the target mobile coverage thus BT's licence commitments and consequential impact to EE brand.

Examples of how the Company manages the risk:

- Robust defence of price change execution fairness, and wider stakeholder engagement.
- Central Programme reviewing current plans and sharing priorities, looking to extend existing site capabilities to address coverage plans.

Operational Risks

Network & Technology

Risk description:

- Mobile Network Huawei swap.

Why this risk is important to EE:

- The removal of all Huawei core and radio access in the medium term

Examples of how the Company manages the risk:

- Delivery of Policy Control Function (replacement for Huawei Policy Control Function) using alternative providers.

Transformation Delivery

Risk description:

- Unpredictability of new IT deliverables impacting the medium-term plan

Why this risk is important to EE:

- Uncertainty of forward delivery of technology planned leads to re-planning of the medium-term plans, loss of opportunity to spend capital expenditure on planned Consumer priorities.

Examples of how the Company manages the risk:

- Introduction of release trains to improve control of multiple streams.
- Increased senior management focus on testing to speed up prioritise decisions.
- Improve testing environments to allow greater capacity.
- Improved capacity modelling

Strategic report (continued)

Risk and uncertainties (continued)

Operational Risks (continued)

People

Risk description:

- Negative impact on colleague wellbeing & retention due to cost of living.
- Corporate attrition and loss of key talent.

Why this risk is important to EE:

- Increasing cost of living driven by rising household costs resulting in colleagues being unable to pay these, leading to increased attrition as people seek higher paid roles and increased pressure on colleagues' wellbeing.
- Attrition continues to run at high levels and there is likely to be more uncertainty in the coming months as well due to pressure from key programmes.

Examples of how the Company manages the risk:

- Delivery programme of initiatives including rewards, benevolence fund & financial wellbeing support

Section 172 Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

In discharging its section 172 duties the Company has regard to the factors set out above. The Company also has regard to other factors which consider relevant to the decision being made. Those factors, for example, include the interests and views of its pensioners and its relationship with Ofcom. The Company acknowledges that every decision it makes will not necessarily result in a positive outcome for all of its stakeholders. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, the Company does, however, aim to make sure that its decisions are consistent and predictable.

As is normal for large companies, the Company delegates authority for day-to-day management of the Company to executives and then engage management in setting, approving and overseeing the execution of the business strategy and related policies. The Company reviews risk and compliance, legal, pensions, and health and safety matters at every Board meeting. The Company also reviews other areas over the course of the financial year including the Company's financial and operational performance; stakeholder-related matters; diversity and inclusivity; and corporate responsibility matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board.

Strategic report (continued)

Section 172 Statement (continued)


The views and the impact of the Company's activities on the Company's stakeholders (including its workforce, customers and suppliers) are an important consideration for it when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both the stakeholders and the BT Group means that generally stakeholder engagement best takes place at an operational or group level. The Company finds that as well as being a more efficient and effective approach, this also helps it achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on some of the engagement that has taken place with the Company's stakeholders so as to help the directors to understand the issues to which they must have regard, and the impact of that feedback on decisions, please see the stakeholders section in the strategic report of BT Group plc's 2023 Annual Report.

The BT Group plc 2023 Annual Report also includes the Group's commitment to climate change and sustainability, the ambition to reach net zero by March 2031, the commitment to making offices energy efficient and helping customers cut carbon.

During the period the Company received information to help it understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on the Company's financial and operational performance, non-financial KPIs, risk, environmental, social and corporate governance matters and the outcomes of specific pieces of engagement. As a result of this the Company has had an overview of engagement with stakeholders and other relevant factors which allows it to understand the nature of the stakeholders' concerns and to comply with its section 172 duty to promote success of the company.

One example of how the Company has had regard to the matters set out in section 172(1)(a)-(f) when discharging its section 172 duties and the effect of that on decisions taken by it, is the payment of an interim dividend of £600 million to its shareholder, EE Group Investments Limited. In making this decision the Board considered a range of factors. These included the long-term viability of the Company; its expected cash flow and financing requirements; the ongoing need for strategic investment in our business and workforce, and the pricing expectations of our customers and suppliers, as well as the expectations of our members.

The Strategic report was approved by the Board of Directors on 7 June 2023 and signed on its behalf by:


Stephen Harris (Jun 7, 2023 16:31 GMT+1)

Stephen Harris
Director

Directors' report

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2023.

Corporate governance statement

The board of directors ("the Board") aspires to have and maintain good standards of corporate governance and has adopted a corporate governance code appropriate for the Company.

The Board has chosen not to adopt and report against the 2018 UK Corporate Governance Code, which in its view is designed, and is therefore more appropriate, for premium listed companies. Whilst the Company supports the introduction of the Wates Corporate Governance Principles for Large Private Companies, it considers that they are less suitable for a wholly-owned subsidiary of a premium listed company. The Company has therefore adopted its own corporate governance code in the form of four overarching principles (as set out below), which it believes are appropriate for the Company and are designed to ensure effective decision-making to promote the Company's long-term success.

Set out below are the principles which underpin the Company's corporate governance code and how these principles have been applied during the financial year ended 31st March 2023.

Principle One: Leadership

"The Company is led by the Board which promotes the success of the Company for the benefit of its members, ensuring that it operates with a clear sense of purpose that aligns with its values, strategy and culture."

- The strategy and culture of the Company is underpinned by a clear vision of the Company's purpose and overall values which are articulated through the leadership of the Board (having reference to the BT Group's strategy, culture and values). Given the importance of this, the Board seeks to promote the values, strategy and culture at different levels within the business. Culture remains an area of focus with the Board promoting ethical leadership and accountability to achieve a dynamic and positive culture.

Principle Two: Board composition

"The Board has an appropriate composition and size to enable it to effectively lead the Company."

- The size and composition of the Board is appropriate and proportionate for the business of the Company. The directors have an appropriate combination of technical, financial and commercial skills collectively demonstrating a high-level understanding of the Company's business model and its impact on key stakeholders.
- All appointments to the Board are based on merit and objective criteria. Diversity remains an area of focus as the Company continues to build a workforce that reflects the diversity of its customers and the communities the Company serves.

Principle Three: Directors' responsibility

"Directors have a clear understanding of their accountability and responsibilities. The Board's policies and practices should support effective decision making and independent challenge."

- On joining the Board, new directors receive all of the information they need, are offered advice from the Company Secretary, and can request training tailored to their specific experience and knowledge, covering both their legal duties and the business of the Company.
- On an ongoing basis, directors update their skills, knowledge and familiarity with the Company in a range of different ways by meeting with senior management, visiting operations and by attending appropriate external and internal seminars and training sessions. This helps by continuing to contribute to their informed and sound decision-making.
- Directors have a responsibility to declare any conflict of interest at the beginning of each Board meeting. Should a conflict arise, it would be the responsibility of the chairman in conjunction with the non-conflicted directors to agree whether the director may participate and/or vote on the specific item.
- The directors have equal voting rights when making decisions, except the chair, who has a casting vote. All directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the Company's expense.

Directors' report (continued)

Corporate governance statement (continued)

Principle Four: Stakeholder relationship and engagement

"The Board should build and maintain effective relationships with stakeholders."

- The Board seeks to understand the views of its key stakeholders, and the impact of its behaviour and business on employees, customers, suppliers and society more broadly. Whilst for reasons of efficiency and effectiveness, much of this engagement takes place at a BT Group level, where appropriate, the Board engages directly with stakeholders through participation in fora and roundtables as well as joining industry, sector and topic debates. For more information on the group level engagement, see the stakeholders section in the strategic report of BT Group plc Annual Report and the Company's section 172(1) statement.
- With respect to engagement that takes place at a BT Group level, the Board monitors the outcome of such engagement.
- The Company engages with the Chair of the trustees of the EE Pension Scheme, who is independent of the Company. The trustees comprise individuals nominated by both the EE Pension Scheme members and the Company. These relationships are key to ensuring that the decisions made by both the Company and scheme reflect the interests of the pensioners.

Dividends

Dividends declared and paid during the year totalled £600 million (2022: £681 million).

Future developments

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

Directors

The Directors, who held office during the year, and up to the approval of this report, are set out on page 1.

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

Research and development

The Company works actively with its suppliers in developing the standards for future mobile communication services and equipment. This cost amounts to £248 million for the year ending 31 March 2023 (2022 restated to exclude amortisation: £185 million)

Going concern

The Company has net current assets of £2,392 million as at 31 March 2023. The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

The Directors have identified a plausible downside scenario and compared to available funding including access to amounts owed from group undertakings and uncommitted loan facilities. The risks considered in the plausible downside scenario include the full financial impact of hyperinflation driven by geo-political factors, the impact of supply chain disruption, the impact of being unable to deliver proposed internal projects on customer retention and the impact of any potential settlement of legal or regulatory claims. The scenario test demonstrates that the Company is expected to have significant liquidity in the going concern period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Directors' report (continued)

Financial risk management

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

The Company's day-to-day funding requirements are met through its working capital. The Company also has an uncommitted loan facility with its parent company which is available to provide funding for large one-off cash outflows. Based on current forecasts the Company does not expect to utilise this facility over the next 12 months. At 31 March 2023 the Company did not utilise this facility. The Company actively maintains liquidity to ensure that it has sufficient available funds for operations and planned expansions. Any surplus cash is deposited with BT plc.

Credit risk is the risk of loss resulting from counterparty default arising on all credit exposures. The Company is exposed to credit risk from its operating activities (primarily for trade and group receivables), and foreign exchange transactions. The Company manages its credit risk by generally requiring that customers satisfy credit worthiness criteria. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed regularly.

The Company uses cash flow hedges to mitigate the foreign exchange risk and minimise the impact of currency fluctuations on its financial statements.

Further detail of the Group's policies can be found in the annual report and financial statements of BT Group Plc, for the year ended 31 March 2023, which does not form part of this report.

Employee engagement

Engaging with colleagues is critical to creating a culture where they can be their best and contribute to the Company's purpose, ambition, strategy and long-term success.

EE colleagues need the Company to:

- create a work environment that helps them be their best;
- give them flexible and agile ways of working;
- provide brilliant training, development, and career opportunities; and
- reward performance with fair and competitive pay and benefits.

How EE engages with colleagues, and the result

For reasons of efficiency and effectiveness, much of this engagement takes place at the Group level. For more information on the group level engagement, see the stakeholders section in the strategic report of BT Group plc Annual Report.

The BT Board receives regular updates from the Chief Executive and Chief HR Officer on its colleagues, key people strategy initiatives, culture and overall sentiment in the organisation.

The BT Board uses the Colleague Board as its chosen method of engagement with its workforce under the UK Corporate Governance Code 2018.

Every year colleagues tell the Company how it feels to work here through the Your Say survey. This has been expanded to include quarterly pulse surveys in several units.

Our People Networks are colleague groups that share opinions and ideas with the Company's leadership to make the Company more diverse and inclusive. Each is supported by an executive sponsor.

The BT Board also formally engage with their European Consultative Council and EE employee representatives in the UK.

Directors' report (continued)

Employee engagement (continued)

Employees with disabilities

BT Group are an inclusive employer and actively encourage the recruitment, development, promotion and retention of disabled people.

Purple Goat is one of the UK's only communications agencies run by disabled people. During the year BT Group partnered with them to deliver a series of videos highlighting the experiences of colleagues with a range of disabilities – from diabetes and visual and hearing impairments to autism.

BT Group are a member of Value 500, a global business collective made up of 500 CEOs and their companies that are committed to disability inclusion. At the disability summit held December 2022, BT Group renewed their commitment to three priorities: Workplace adjustment; Disability advocacy; and Career progression of our junior managers.

These priorities support our Valuable 500 commitment. To accelerate the pace of progress BT Group are making for disabled and neurodiverse colleagues, and those that have an impairment, or a long-term health condition. BT Group renewed their status as a Disability Confident Leader and continue to work with several teams across the business, their Able2 People Network and external partner the Business Disability Forum.

Please see the Diversity and Inclusion Report, at bt.com/diversity-and-inclusion.


Indemnification of Directors

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

Disclosure of information to the auditor

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

On behalf of the Board


Stephen Harris (Jun 7, 2023 16:31 GMT+1)

Stephen Harris

Director

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's report to the members of EE Limited

Opinion

We have audited the financial statements of EE Limited ("the Company") for the year ended 31 March 2023 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to other entities of public interest. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for the foreseeable future ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- The impact of prolonged hyperinflation driven by geo-political factors;
- The impact of significant supply chain disruptions driven by geo-political factors.
- The impact of being unable to deliver proposed internal projects on customer retention
- The impact of any potential settlement of legal or regulatory claims

We also considered less predictable but realistic second order impacts, such as a large scale cyber breach or adverse changes to telecoms regulation which could result in a rapid reduction of available financial resources.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Company's current and projected cash and the availability of the support of the parent company.

We also assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2.1 to be acceptable.

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Inquiring of directors, management and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board of Director, Divisional Executive Committee and Divisional Audit & Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors including the BT divisional EPS target for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, recent revisions to guidance and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because non-long-term contract revenues are not judgmental and consist of a high number of low value transactions, and long-term contracts are low in complexity with a revenue recognition profile aligned to billing.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted containing key words indicative of fraud, those posted and approved by the same user, those posted to unusual or seldom used accounts and those posted after the system closure date.
- Assessing whether the judgements made in making the accounting estimates are indicative of a potential bias

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation, and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

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

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, regulations affecting telecommunication providers, and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities (including compliance with Ofcom regulation and FCA regulation) and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Board other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

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

Directors' responsibilities

As explained more fully in their statement set out on page 11, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

KATE TEAL

Kate Teal (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

8th June 2023

Income statement
For the year ended 31 March 2023

	Notes	31 March 2023 £m	31 March 2022 £m
Revenue	4	6,913	6,856
Operating costs	5	<u>(5,191)</u>	<u>(5,267)</u>
Operating profit		1,722	1,589
Finance income/(expense)		48	(20)
Income from associate / joint venture		<u>1</u>	<u>-</u>
Profit before taxation		1,771	1,569
Taxation	9	<u>(317)</u>	<u>(385)</u>
Profit for the financial period		<u>1,454</u>	<u>1,184</u>

All results derive from continuing operations.

The notes on pages 21 to 49 form part of these financial statements.

Statement of comprehensive income
For the year ended 31 March 2023

	Notes	31 March 2023 £m	31 March 2022 £m
Profit for the financial period		1,454	1,184
Other comprehensive income on items that may be subsequently reclassified to income statement			
Cash flow hedges (Gain)/loss recycled through Income Statement in the period	18	(5)	3
Fair value gain arising in the period	18	5	1
Tax relating to cash flow hedges	9	(1)	(1)
		<u>(1)</u>	<u>3</u>
Items which will not be reclassified to income statement			
Actuarial gain on defined benefit pension scheme	20	37	145
Tax relating to defined benefit pension scheme	9	(10)	(27)
		<u>27</u>	<u>118</u>
Other comprehensive income for the period		26	121
Total comprehensive income for the period		1,480	1,305

The notes on pages 21 to 49 form part of these financial statements.

Statement of financial position

As at 31 March 2023

Company number: 02382161

		31 March 2023 £m	31 March 2022 £m
Non-current assets			
Intangible assets	10	3,447	3,459
Property, plant and equipment	11	2,851	2,924
Right-of-use assets	12	893	981
Investments	13	13	13
Trade and other receivables	15	44	12
Contract assets	4	332	329
Deferred contract costs	4	44	48
Pension asset	20	36	-
Total non-current assets		7,660	7,766
Current assets			
Inventories	14	142	159
Contract assets	4	1,328	1,286
Deferred contract costs	4	173	176
Trade and other receivables	15	1,011	842
Amounts owed by group undertakings	17	2,765	1,252
Cash and cash equivalents	17	26	22
Total current assets		5,445	3,737
Total assets		13,105	11,503
Current liabilities			
Trade and other payables	16	(2,542)	(1,904)
Loans and other borrowings	17	(73)	-
Lease liabilities	12	(192)	(196)
Contract liabilities	4	(202)	(190)
Provisions	19	(44)	(45)
Total current liabilities		(3,053)	(2,335)
Non-current liabilities			
Loans and other borrowings	17	(27)	-
Lease liabilities	12	(765)	(851)
Deferred tax liability	9	(588)	(392)
Contract liabilities	4	(5)	(16)
Provisions	19	(97)	(208)
Pension liability	20	-	(13)
Total non-current liabilities		(1,482)	(1,480)
Total liabilities		(4,535)	(3,815)
Total net assets		8,570	7,688


Statement of financial position (continued)

As at 31 March 2023

	Notes	31 March 2023 £m	31 March 2022 £m
Equity			
Share capital	21	22	22
Share premium	21	1,638	1,638
Capital contribution reserve	21	196	196
Cash flow hedge reserve	21	-	1
Retained earnings		<u>6,714</u>	<u>5,831</u>
Total equity		<u>8,570</u>	<u>7,688</u>

The notes on pages 21 to 49 form part of these financial statements.

The financial statements on pages 16 to 49 were approved and authorised for issue by the board of Directors on 7 June 2023 and were signed on its behalf by:


Stephen Harris (Jun 7, 2023 16:31 GMT+1)

Stephen Harris
Director

Statement of changes in equity

For the year ended 31 March 2023

	Share capital	Share premium	Capital contribution reserve	Retained earnings	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m
At 31 March 2021	22	1,638	196	5,203	(2)	7,057
Profit for the financial year	-	-	-	1,184	-	1,184
Actuarial gain on defined benefit pension scheme	-	-	-	145	-	145
Deferred tax relating to defined benefit pension scheme	-	-	-	(27)	-	(27)
Cash flow hedges						
Gain recycled through Income Statement in the period	-	-	-	-	3	3
Fair value gain arising in the year	-	-	-	-	1	1
Deferred tax relating to cash flow hedges	-	-	-	-	(1)	(1)
Total comprehensive income	-	-	-	1,302	3	1,305
Dividends declared and paid	-	-	-	(681)	-	(681)
Share based payments	-	-	-	7	-	7
At 31 March 2022	22	1,638	196	5,831	1	7,688
Profit for the financial year	-	-	-	1,454	-	1,454
Actuarial gain on defined benefit pension scheme	-	-	-	37	-	37
Deferred tax relating to defined benefit pension scheme	-	-	-	(10)	-	(10)
Cash flow hedges						
Loss recycled through Income Statement in the period	-	-	-	-	(5)	(5)
Fair value gain arising in the year	-	-	-	-	5	5
Deferred tax relating to cash flow hedges	-	-	-	-	(1)	(1)
Total comprehensive income	-	-	-	1,481	(1)	1,480
Dividends declared and paid	-	-	-	(600)	-	(600)
Share based payments	-	-	-	2	-	2
At 31 March 2023	22	1,638	196	6,714	-	8,570

The notes on pages 21 to 49 form part of these financial statements.

Notes to the Financial Statements

1. General information

The financial statements of the Company for the financial year ended 31 March 2023 were authorised for issue and signing in accordance with a resolution of the Directors on 7 June 2023. The statement of financial position was signed on behalf of the board by Stephen Harris. The Company is a private limited company incorporated and domiciled in England and Wales of the United Kingdom. The registered office is located at 1 Braham Street, London, United Kingdom, E1 8EE.

2.1 Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of the UK-adopted International Financial Reporting Standards ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Certain disclosures regarding revenue;
- Certain disclosures regarding leases;
- Comparative period reconciliations for share capital, tangible fixed assets, and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of BT Group Plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 *Share Based Payments* in respect of group settled share-based payments
- Certain disclosures required by IAS 36 *Impairment of assets* in respect of the impairment of goodwill and indefinite life intangible assets;
- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

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

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

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

Notes to the Financial Statements (continued)

2.1 Basis of preparation (continued)

The results of BT Plc are included in the consolidated financial statements of BT Group Plc which are available on the group website, www.btplc.com or from the Company Secretary at the registered office, 1 Braham Street, London, United Kingdom, E1 8EE.

Going concern

The Company has net current assets of £2,392 million as at 31 March 2023. The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

The Company's day-to-day funding requirements are met through its working capital including access to amounts owed from group undertakings. The Company also has an uncommitted loan facility with its parent company which is available to provide funding for large one-off cash outflows. Based on current forecasts the Company does not expect to utilise this facility in either of the next two financial years. The Company actively maintains liquidity to ensure that it has sufficient available funds for operations and planned expansions. Any surplus cash is deposited with British Telecommunications plc.

The Directors have identified a plausible downside scenario and compared to available funding including access to amounts owed from group undertakings and uncommitted loan facilities. The risks considered in the plausible downside scenario include the full financial impact of hyperinflation driven by geo-political factors, the impact of supply chain disruption, the impact of being unable to deliver proposed internal projects on customer retention and the impact of any potential settlement of legal or regulatory claims. The scenario test demonstrates that the Company is expected to have significant liquidity in the going concern period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

2.2 Summary of significant accounting policies

a) Goodwill

For the purpose of impairment testing, goodwill is allocated to the cash generating unit ("CGU") that is expected to benefit from the combination.

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.

It is not possible to identify a finite life for the Company's goodwill (per Companies Act), therefore goodwill has not been amortised. However, the effect of amortising over a useful life of 10 years would be a charge of £64 million (2022: £64 million) against operating profit, and a reduction of £527 million (2022: £463 million) in the carrying value of goodwill in the balance sheet.

b) Investments

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

Investments are recorded at cost less impairment.

c) Interests in joint arrangements

Companies that are controlled jointly by the Company and a limited number of other shareholders through a contractual arrangement are classified as joint arrangements.

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

i) Interests in joint operations

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

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

c) Interests in joint arrangements (continued)

ii) Interests in joint ventures

The Company reports its interests in joint ventures at cost less impairment.

d) Foreign currency translation

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

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

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

e) Revenue recognition

Revenues from the Company's activities are recognised and presented as follows, in accordance with IFRS 15 'Revenue from Contracts with Customers'.

i) Service revenues

Revenues from airtime and mobile subscription fees as well as those from the wholesale access revenues are recognised over the subscription period.

If the customer exceeds their bundled calls and minutes, then revenues from charges for incoming and outgoing airtime usage as well as those from the wholesale of traffic are recognised in revenue when the service is rendered.

ii) Equipment Sales

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

iii) Separable components of packaged and bundled offers

Numerous service offers by the Company include two or more components: equipment (e.g. a mobile handset) and a service (e.g. a talk plan). For the sale of multiple products or services, the Company evaluates all deliverables in the arrangement to determine whether they represent separate performance obligations under IFRS 15.

Where the transaction price allocated to equipment exceeds the amount received from the customer at the date the equipment is delivered, revenue is recognised upfront, while a contract asset is recorded on the balance sheet which unwinds over the expected tenure of the contract.

For offers that cannot be separated into identifiable components, revenue is recognised in full over the life of the contract.

iv) Content supply arrangements

The accounting for supply of content depends on the analysis of the facts and circumstances surrounding these transactions. If the Group has control of goods or services when they are delivered to a customer, then the Group is the principal in the sale to the customer and revenue is recorded gross; otherwise the Group is acting as an agent where revenue will be recorded net. Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Company and its business partners.

v) Promotional offers

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

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

vi) Penalties

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

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

vii) Subscriber acquisition and retention costs

Incremental subscriber acquisition and retention costs are capitalised and amortised over the contract period. In some cases, contractual clauses with retailers provide for a profit-sharing based on the recognised and paid revenue; this profit-sharing is expensed when the related revenue is recognised.

f) Advertising and related costs

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

g) Leases

Identifying whether a lease exists

At inception of a contract, the Company determines whether the contract is, or contains a lease. A lease exists if the contract conveys the right to control the use of an identified asset, for a period of time, in exchange for consideration.

Where practicable, the Company has elected to account for leases containing a lease component and one or more non-lease components as a single lease component. Where this election has been taken, it has been applied to the entire asset.

Lessee accounting

The Company recognises a lease liability and right-of-use asset at the commencement of a lease.

Lease liabilities are initially measured at the present value of lease payments that are due over the lease term, discounted using the Company's incremental borrowing rate.

Lease liabilities are subsequently measured at amortised cost using the effective interest method. They are remeasured if there is a change in future lease payments or the amount expected to be payable under a residual value guarantee, or if there are changes in assessment of the lease term.

Right-of-use assets are initially measured at the initial amount of the corresponding lease liabilities, adjusted for any prepaid lease payments, plus any initial direct costs incurred, less any lease incentives received. They are subsequently depreciated using the straight-line method to the earlier of the end of the assets useful life or the end of the lease term. Right-of-use assets are tested for impairment following the policy set out in note 2.2.j) (Impairment of non-current assets other than goodwill) and are adjusted for any remeasurement of lease liabilities.

Any variable lease payments that do not depend on an index or rate, such as usage-based payments, are recognised as an expense in the period to which the variability relates.

Lessor accounting

Where the Company acts as lessor, it classifies the lease as a finance lease at lease inception based on an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset, if not, it is an operating lease.

Where the lease is an operating lease, the Company recognises lease payments as income on a straight-line basis over the lease term. As the Company's operating lease income does not relate to its core activities, it is presented in other operating income. Any upfront payments received, such as connection fees, are deferred over the lease term.

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

g) Leases (continued)

Lessor accounting (continued)

Where the Company acts as a finance lessor, it de-recognises the underlying asset and recognises a finance lease receivable at an amount equal to the net investment in the lease. Rental receipts are apportioned between interest income and repayment of the debtor balance, with the interest portion calculated using the effective interest rate method.

h) Intangible assets

Intangible assets acquired are initially recognised at cost.

Software

Software is amortised on a straight-line basis over its expected useful life which does not exceed 5 years.

Research and development costs

Capitalised development costs are presented as intangible assets. They are amortised on a straight-line basis over their expected useful life generally not exceeding 3 years, with the exception of websites for which amortisation does not exceed 5 years.

Research costs and development costs not fulfilling the capitalisation criteria are expensed as incurred.

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

Other – Licences

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

i) Property, plant and equipment

Property, plant and equipment acquired or constructed subsequently is initially recognised at cost.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items.

Depreciation

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- | | |
|--------------------------------------|-----------------------------------|
| • Freehold land: | Not depreciated |
| • Freehold buildings: | 50 years |
| • Short-term leasehold improvements: | shorter of 10 years or lease term |
| • Network: | 5 to 20 years |
| • Fixtures, fittings and equipment: | 3 to 7 years |

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

j) Impairment of non-current assets other than goodwill

In the case of a decline in the recoverable amount of an item of property, plant and equipment or an intangible asset to below its net book value, due to events or circumstances occurring during the period 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. The impairment loss recognised is equal to the difference between the net book value and the recoverable amount.

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

j) Impairment of non-current assets other than goodwill (continued)

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 IFRS 9 category they belong to.

k) Financial assets and liabilities

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

Financial liabilities at amortised cost (with the exception of lease liabilities)

The Company initially recognises financial liabilities at the fair value net of transaction costs. They are subsequently measured at amortised cost using the effective interest rate method.

Derivatives and Hedge accounting

The Company uses forward currency contracts to hedge its foreign currency risks. All derivative financial instruments are held at fair value on the Company's balance sheet.

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

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.

l) Equipment inventories

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

m) Provisions and Contingent Liabilities

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability and recognised on the balance sheet.

Contingent liabilities are disclosed in the notes to the financial statements.

n) Employee benefits

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

Defined Contribution Scheme

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

Defined Benefit Scheme

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

The net obligation recognised in the statement of financial position is the present value of the defined benefit obligation less the fair value of the scheme's assets.

Notes to the Financial Statements (continued)

2.2 Summary of significant accounting policies (continued)

n) Employee benefits (continued)

Defined Benefit Scheme (continued)

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

o) Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

p) Cash and cash equivalents

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

q) Share-based payments

The ultimate parent, BT Group Plc, operates a number of equity settled share-based payment arrangements under which the Company receives services from employees in consideration for equity instruments (share options and shares) of BT Group Plc.

2.3 Significant estimates and judgements

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment in future periods, to the carrying amounts of assets or liabilities affected. There are no significant estimates or judgements highlighted, but other estimates and judgements are as follows.

a) Judgements

Leases

The lease term is a key determinant of the size of the lease liability and right-of-use asset recognised where the Company acts as lessee; and the deferral period for any upfront connection charges where the Company acts as lessor. Determining the lease term requires judgement to evaluate whether the Company is reasonably certain the lessee will exercise extension options or will not exercise termination options.

The Company's definition of 'reasonable certainty', and therefore the lease term, will often align with the judgements made in the medium-term plan.

Notes to the Financial Statements (continued)

2.3 Significant estimates and judgements (continued)

a) Judgements (continued)

Leases (continued)

Following initial determination of the lease term, the Company exercises judgement in evaluating whether events or changes in circumstances are sufficiently significant to change the initial assessment of whether it is reasonably certain the lessee will exercise extension options or will not exercise termination options; and in the subsequent reassessment of the lease term.

The key judgements exercised in setting the lease term are associated with the portfolios of leased properties and cell sites.

Property

A portion of the Company's leased property estate relates to its retail operation. When setting the initial lease term for these arrangements the Company exercised judgement in establishing the period that it is reasonably certain to require use of the retail stores. The Company broadly aligned lease terms with the medium-term planning horizon with exception to leases with a longer non-cancellable term.

Subsequently, the Company has considered key events that trigger reassessment of lease terms to be developments which resolve uncertainty around its economic incentive to remain in the property. These are primarily lease renegotiations.

Cell sites

A significant volume of the Company's overall leased cell site portfolio relates to arrangements with individual landlords which are either rolling or can be exited with notice. When setting the initial lease term for these arrangements the Company exercised significant judgement in establishing the period that it is reasonably certain to require use of the site. The Company broadly aligned lease terms with the medium-term planning horizon after assessing internal & external factors.

Subsequently, the Company considers key events that trigger reassessment of lease terms to be developments which resolve uncertainty around its economic incentive to remain on individual sites in the long term.

b) Estimates and assumptions

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

Depreciation and Amortisation of Assets

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

At this point, the assets are depreciated or amortised in line with their determined useful economic life.

Provisions

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Company to settle its obligation. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of the provisions within the next financial year are as follows:

Asset Retirement Obligation ("ARO"): The Company is required to dismantle equipment and restore sites and properties under operating leases. This estimate is revised annually. Estimation uncertainty arises as a result of assumptions surrounding future amounts required to settle obligations, discounted cash flows and the timing of exiting leasing arrangements.

Notes to the Financial Statements (continued)

2.3 Significant estimates and judgements (continued)

Employee long-term benefits

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

b) Estimates and assumptions (continued)

Impairment of Financial Assets

The Company uses the forward-looking 'expected credit loss' model of IFRS 9 and recognises a loss allowance for all expected credit losses on initial recognition of financial assets, including trade receivables and contract assets recognised under IFRS 15. In estimating a loss allowance the Company considers historical experience and informed credit assessment alongside other factors such as the current state of the economy and particular industry issues.

Revenue

Revenue is recognised based on the relative standalone selling price of each performance obligation. Determining the standalone selling price often requires judgement and may be derived from regulated prices, list prices, a cost-plus derived price, or the price of similar products when sold on a stand-alone basis by the company or a competitor. In some cases, it may be appropriate to use the contract price when this represents a bespoke price that would be the same for a similar customer in a similar circumstance.

3. EBITDA

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Profit before tax	1,771	1,569
<i>Add back:</i>		
Finance (income)/expense	(48)	20
Amortisation and depreciation	990	1,016
Exceptional item	-	-
(Income) from associate/joint venture	1	-
EBITDA	<u>2,714</u>	<u>2,605</u>

Earnings before Interest, Tax, Depreciation and Amortisation, and share of profits of associates and joint ventures ("EBITDA") is not a defined financial measure defined by FRS 101 as a measurement of financial performance and may not be comparable to other similarly titled indicators used by other companies. In line with the BT Group plc accounting policies the definition of EBITDA also excludes exceptional items. EBITDA is provided as additional information only and should not be considered as a substitute for operating profit or net cash provided by operating activities.

The Company's management believes that EBITDA is meaningful for users of the financial statements because it provides an analysis of operating results and profitability using the same measures used by management. As a consequence, EBITDA is provided in addition to operating profit. EBITDA is a key measure of operating profitability used to i) implement investments and resource-allocation strategy, and ii) assess the performance of the management.

Notes to the Financial Statements (continued)

4. Revenue

The Company's activities consist of the provision of telecommunications, broadband, services and equipment. Included in telecommunications are roaming agreements for the Company's customers when travelling overseas, and for overseas based customers of equivalent networks roaming in the UK.

In both the current and prior years, revenue was generated pre-dominantly by operations in the United Kingdom and constitutes, in the opinion of the Directors, one class of business.

Contract assets and liabilities

Contract assets and liabilities are shown on the face of the balance sheet.

In-year impairment losses of £46 million (2022: £47 million) were recognised in relation to contract assets.

Of the contract liability balance held at year end, £191 million (2022: £188 million) was recognised as revenue in the current year.

Performance obligations

The fixed element of consumer fixed access and mobile subscription arrangements is typically payable in advance, with any variable or one-off charges billed in arrears. Payment terms are generally 30 days. Payment is received immediately for direct sales of equipment to consumers. Where equipment is provided to customers under mobile and fixed access subscription arrangements, payment for the equipment is received over the course of the contract term. For commercial arrangements, invoices are issued according to contractual terms and are usually payable within 30 days, however, different terms may be negotiated. Payments received in advance are recorded as contract liabilities, amounts billed in arrears are recorded as contract assets.

The company does not have material obligations in respect of returns, refunds or warranties.

Contract costs

Certain costs associated with the acquisition and fulfilment of contracts with customers are capitalised and amortised over the period that the associated services are transferred. The following table shows the movements on deferred costs:

	Deferred connection costs	Deferred contract acquisition costs commissions	Deferred contract acquisition costs dealer incentives	Total
	£m	£m	£m	£m
At 31 March 2022	10	20	194	224
Additions	2	28	204	234
Amortisation	(7)	(27)	(207)	(241)
Created (released) in period	-	(4)	4	-
At 31 March 2023	<u>5</u>	<u>17</u>	<u>195</u>	<u>217</u>

As at 31 March 2023, £44 million (2022: £48 million) of the deferred contract cost is non-current and the remaining £173 million (2022: £176 million) is current.

Notes to the Financial Statements (continued)

5. Operating costs

	Notes	31 March 2023 £m	31 March 2022 £m
Staff costs:			
Wages and salaries		309	221
Social security costs		30	15
Other pension costs	20	37	19
Share-based payment expense		5	7
Total staff costs		<u>381</u>	<u>262</u>
Own work capitalised		<u>(75)</u>	<u>(84)</u>
Net staff costs		306	178
Net indirect labour costs		<u>97</u>	<u>71</u>
Net labour costs		403	249
Product costs and sales commissions		2,427	2,527
Payments to telecommunications operators		391	394
Property and energy costs		185	177
Network operating and IT costs		385	374
Provision and installation		10	13
Marketing and sales		203	115
Net impairment losses on contract assets and trade receivables		76	60
Other operating costs		143	364
Other operating income		(22)	(22)
Amortisation and depreciation	10,11,12	<u>990</u>	<u>1,016</u>
Total operating costs		<u>5,191</u>	<u>5,267</u>

6. Auditors' remuneration

The following amounts were receivable by the Company's auditor in respect of the audit of the financial statements and for other services provided to the Company:

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Audit of the financial statements	<u>1,120</u>	<u>1,120</u>

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group financial statements of its parent BT Group Plc. The auditor's remuneration is borne by BT Group Plc, no recharge (2022: £nil) was made to EE Limited.

Notes to the Financial Statements (continued)

7. Employees

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

	Year ended 31 March 2023 No.	Year ended 31 March 2022 No.
Operations	785	111
Selling and distribution	6,381	5,697
Customer care and administration	6,082	4,275
Total employees	13,248	10,083

There has been an increase in the staff numbers due to the Company undertaking a TUPE exercise between EE Limited and BT plc and therefore 8,561 employees moved between the two entities.

8. Directors' emoluments

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Remuneration	1,906	689
Pension costs	2	2
Amounts paid under long-term incentive schemes	-	98
Total emoluments	1,908	789

Employer's National Insurance contributions in respect of key management personnel were £325,138 (2022: £136,357).

None of the Directors received shares in BT Group Plc in respect of qualifying services under a long-term incentive plan (2022: none).

One Director exercised share options of £472,724 during the period (2022: One Director £161,433).

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

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Total emoluments	1,565	372
Pension costs	-	-
Total emoluments	1,565	372

Retirement benefits in the form of defined contribution schemes were accruing for two directors at 31 March 2023 (31 March 2022: two).

The Directors Marc Allera and Stephen Harris undertake their management activities at the BT Consumer level. An apportionment of their emoluments has been made to reflect the services rendered to the Company through these activities.

Notes to the Financial Statements (continued)

8. Directors' emoluments (continued)

The Directors Stephen Best, Jeffrey Langlands and John Watson were employed by, and received their emoluments from BT Plc during the period. These Directors holding office during the year consider their services to the Company to be incidental to their other duties within BT Group Plc and accordingly no remuneration has been apportioned to the Company (2022: £nil).

9. Taxation

(a) Income tax charged in the income statement

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Current income tax:		
UK corporation tax	191	245
Adjustments in respect of previous periods ^a	<u>(56)</u>	<u>(195)</u>
Total current income tax	<u>135</u>	<u>50</u>
Deferred tax:		
Origination and reversal of temporary differences	128	31
Re-measurement of deferred tax balances	-	95
Adjustments in respect of previous periods ^a	<u>54</u>	<u>209</u>
Total deferred tax expense	<u>182</u>	<u>335</u>
Income tax expense in the income statement	<u>317</u>	<u>385</u>

^a During the year ending 31 March 2022 certain prior period tax issues were resolved at a net tax cost of £69 million, comprising a £263 million deferred tax charge and a £194 million current tax

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Tax related to items charged or credited directly to the statement of comprehensive income:		
Tax on actuarial gain on pension liability	10	27
Tax on cash flow hedges	<u>1</u>	<u>1</u>
Tax expense in the statement of comprehensive income	<u>11</u>	<u>28</u>
Consisting of:		
Current tax income	(2)	(7)
Deferred tax expense	<u>13</u>	<u>35</u>

Notes to the Financial Statements (continued)

9. Taxation (continued)

(c) Reconciliation of the total income tax expense

The tax expense in the income statement for the year is different than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are reconciled below:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Accounting profit before income tax	1,771	1,569
Accounting profit multiplied by the UK average standard rate of corporation tax of 19% (2022: 19%)	336	298
Non-deductible expenses ^a	(48)	(22)
Impact of tax rate change on the deferred tax asset	-	95
Re-measurement of deferred tax balances	31	-
Current income tax adjustments in respect of previous periods	(56)	(195)
Deferred tax adjustments in respect of previous periods	54	209
Total income tax expense	317	385

^a Includes income that is not taxable or UK income taxable at a different rate, and expenses for which no tax relief is received. In both the year ending 2022 and 2023 this included the benefit of the UK super-deduction.

(d) Deferred tax asset/(liability)

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Deferred tax liability		
Accelerated tax depreciation	(616)	(450)
Pension scheme liabilities	(9)	-
Total deferred tax liability	(625)	(450)

Notes to the Financial Statements (continued)

9. Taxation (continued)

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

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Deferred tax asset		
Pension scheme liabilities	-	3
Provisions deductible on a paid basis	37	55
Total deferred tax asset	37	58
Disclosed in the statement of financial position		
Net deferred tax liability	(588)	(392)

The Company offsets deferred tax assets and liabilities if and only if it has a legally enforceable right to set off income tax assets and current income tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority. The deferred tax assets and liabilities listed above relate to income tax levied by HM Revenue and Customs in the UK. The Company expects to be able to use the deferred tax asset against future profits.

Deferred tax in the income statement:

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Accelerated capital allowances	165	347
Provisions	18	(11)
Pensions	(1)	(1)
Deferred tax expense	182	335

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).

Notes to the Financial Statements (continued)

10. Intangible assets

	Goodwill	Spectrum	Software	Other	Total
	£m	£m	£m	£m	£m
<i>Cost:</i>					
At 31 March 2022	637	5,268	1,029	5	6,939
Additions	-	-	248	-	248
Disposals	-	-	(105)	-	(105)
Reclassification	-	-	2	-	2
At 31 March 2023	<u>637</u>	<u>5,268</u>	<u>1,174</u>	<u>5</u>	<u>7,084</u>
<i>Amortisation:</i>					
At 31 March 2022	-	(3,047)	(428)	(5)	(3,480)
Charge during the year	-	(157)	(105)	-	(262)
Disposals	-	-	105	-	105
At 31 March 2023	<u>-</u>	<u>(3,204)</u>	<u>(428)</u>	<u>(5)</u>	<u>(3,637)</u>
Net book value at 31 March 2023	<u>637</u>	<u>2,064</u>	<u>746</u>	<u>-</u>	<u>3,447</u>
Net book value at 31 March 2022	<u>637</u>	<u>2,221</u>	<u>601</u>	<u>-</u>	<u>3,459</u>

Impairment test for goodwill and intangible assets

No indicators of impairment were identified.

Fully amortised assets

Included above are fully amortised assets with an original cost of £280 million (2022: £308 million) which are still in use.

Notes to the Financial Statements (continued)

11. Property, plant and equipment

	Freehold land & buildings	Short term leasehold improvements	Network	Fixtures & fittings	Total
	£m	£m	£m	£m	£m
<i>Cost:</i>					
At 31 March 2022	42	42	6,304	176	6,564
Additions	-	-	574	10	584
Disposals and adjustments	-	(28)	(168)	(27)	(223)
Reclassification	-	-	(2)	-	(2)
At 31 March 2023	42	14	6,708	159	6,923
<i>Depreciation:</i>					
At 31 March 2022	(12)	(40)	(3,485)	(103)	(3,640)
Charge during the year	(1)	-	(550)	(6)	(557)
Disposals and adjustments	-	28	76	21	125
At 31 March 2023	(13)	(12)	(3,959)	(88)	(4,072)
Net book value at 31 March 2023	29	2	2,749	71	2,851
Net book value at 31 March 2022	30	2	2,819	73	2,924

Network Share Arrangement

Included in network assets is £66 million (2022: £73 million), which is the Company's share of total MBNL network assets.

The Company and Hutchison 3G UK Limited ("H3G") share an active 3G network and some of the costs of backhaul for network cell sites. A civil engineering refresh program is being undertaken to ready the shared radio access network for 5G. The net book value of the Company's share of assets controlled by its joint operation MBNL is £721 million at 31 March 2023 (2022: £562 million) and is shown within network assets.

Fully depreciated assets

Included above are fully depreciated assets with an original cost of £1,512 million (2022: £1,203 million) which are still in use.

Assets under construction

As at 31 March 2023, included within Network assets are £449 million (2022: £471 million) of assets under construction. This includes assets located on both unilateral and shared network sites. Depreciation on assets under construction does not commence until they are complete and available for use.

Disposals and adjustments

During the year, a £94 million decrease was made to asset retirement obligations (ARO). £87 million relates to the Network ARO (which includes 3G decommission) and £7 million relates to Short term leasehold. These movements were because of changes to the discount rates. (2022: increase of £25 million).

Notes to the Financial Statements (continued)

12. Leases

EE Limited as lessee

Right-of-use assets

Most of the Company's right-of-use assets are associated with leased property portfolio, specifically office, retail and network infrastructure, including mobile cell and switch sites.

	Land and buildings	Network Equipment	Motor vehicles	Total
	£m	£m	£m	£m
At 1 April 2021	1,097	15	1	1,113
Depreciation charge for the year	(169)	(6)	(1)	(176)
Additions ^a	68	1	-	69
Disposals and adjustments	(25)	-	-	(25)
At 31 March 2022	971	10	-	981
Depreciation charge for the year	(166)	(5)	-	(171)
Additions ^a	111	1	-	112
Disposals and adjustments	(29)	-	-	(29)
At 31 March 2023	887	6	-	893

^a Additions comprise increases to right-of-use assets as a result of entering into new leases, and upwards remeasurement of existing leases arising from lease extensions or reassessments and increases to lease payments.

Lease liabilities

Current and non-current lease liabilities are presented on the face of the balance sheet.

Lease liabilities recognised at 31 March 2023 total £957 million (2022: £1,047 million). £192 million (2022: £196 million) of this balance is classified as current, with the remaining £765 million (2022: £851 million) classified as non-current.

Interest expense of £23 million accrued on lease liabilities in the year to 31 March 2023 (2022: £21 million).

The total cash outflow for leases in the year 31 March 2023 was £196 million (2022: £205 million).

At 31 March 2023 the company was not committed to any future minimum lease payments in respect of leases which have not yet commenced and for which no lease liability has been recognised (2022: £nil).

EE Limited as lessor

Leases classified as operating leases

Substantially all of the operating lease income recognised relates to subleases of retail stores and shared site income generated through the MBNL joint operation.

The Company has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to ownership of the underlying assets.

The following table provides an analysis of the remaining cash flows associated with operating leases receivable between 1 April 2023 and the remainder of the lease term:

Notes to the Financial Statements (continued)

12. Leases (continued)

	2023	2022
	£m	£m
Less than one year	17	19
One to two years	7	6
Two to three years	7	6
Three to four years	7	7
Four to five years	6	7
More than five years	1	7
Total undiscounted lease payments	<u>45</u>	<u>52</u>

Leases classified as finance leases

The Company acts as finance lessor in relation to retail stores, where these are subleased to franchisees for substantially the entire head lease term.

The following table provides an analysis of the remaining cash flows associated with finance leases receivable between 1 April 2023 and the remainder of the lease term:

	2023	2022
	£m	£m
Less than one year	4	6
One to two years	5	5
Two to three years	1	3
Three to four years	1	2
Total undiscounted lease payments	<u>11</u>	<u>16</u>

Notes to the Financial Statements (continued)

13. Investments

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

Name	Country of incorporation	Principal activities	Shareholding	Registered address
EE Finance Limited	UK	In liquidation on 9 February 2021	100%	55 Baker Street, London, W1U 7EU
Mainline Communications Group Limited	UK	Communication Distribution	100%	1 Braham Street, London, United Kingdom, E1 8EE
Mainline Digital Communications Limited *	UK	Communication Distribution	100%	1 Braham Street, London, United Kingdom, E1 8EE
Orange Services India Private Limited	India	Management support	100%	A-47, Hauz Khas New Delhi DL 110016 IN
EE Pension Trustee Limited	UK	Pension Trustee	100%	1 Braham Street, London, United Kingdom, E1 8EE
Orange FURBS Trustees Limited *	UK	Pension Trustee	100%	1 Braham Street, London, United Kingdom, E1 8EE
Orange Personal Communications Services Limited	UK	Dormant	100%	1 Braham Street, London, United Kingdom, E1 8EE
EE (Group) Limited *	UK	Dormant	100%	1 Braham Street, London, United Kingdom, E1 8EE
Orange Home UK Limited *	UK	Dormant	100%	1 Braham Street, London, United Kingdom, E1 8EE
Mobile Broadband Network Limited	UK	Communication Distribution	50%	Sixth Floor, Thames Tower, Station Road, Reading, England, RG1 1LX
Midland Communications Distribution Limited	UK	Communication Distribution	35%	10 Stadium Business Court Millennium Way, Pride Park Derby, England, DE24 8HP
Digital Mobile Spectrum Limited	UK	Corrective support for Freeview services affected by deployment of 4G (800 MHz)	25%	24/25 The Shard 32 London Bridge Street, London, England, SE1 9SG

* Subsidiaries are held by subsidiary entities.

The Company accounts for Mobile Broadband Network Limited as a joint operation, and the assets, liabilities and results of this investment are included on a proportional consolidation basis. The remaining investments are held under historic cost.

Notes to the Financial Statements (continued)

13. Investments (continued)

All shareholdings are investments in ordinary shares.

	31 March 2023 £m	31 March 2022 £m
Balance of investments at the beginning of the year	13	13
Balance of investments at the end of the year	13	13

14. Inventories

	31 March 2023 £m	31 March 2022 £m
Inventories of handsets and accessories	142	159
Gross value	168	186
Provision for obsolescence	(26)	(27)
Total inventories at the lower of cost and net realisable value	142	159

There is no material difference between the balance sheet value of inventory and their replacement cost. The amount of inventory included within product costs and sales commissions was £1,809 million (2022: £1,837 million). This includes write-downs on new inventory of £nil million (2022: £nil).

15. Trade and other receivables

	31 March 2023 £m	31 March 2022 £m
Current:		
Trade receivables	295	325
Accrued income	84	78
Prepaid external purchases	107	75
Other receivables	29	8
Amounts owed by group undertakings	496	356
Total trade and other receivables	1,011	842

Notes to the Financial Statements (continued)

15. Trade and other receivables (continued)

	31 March 2023 £m	31 March 2022 £m
Non-current:		
Leasing debtors	11	12
Other receivables	33	-
	<u>44</u>	<u>12</u>

Trade receivables are stated after provisions for impairment of £48 million (2022: £40 million).

16. Trade and other payables

	31 March 2023 £m	31 March 2022 £m
Current		
Trade payables	1,397	1,428
Amounts owed to group undertakings	847	219
Other taxes and VAT payable	270	246
Employee related payables	23	11
Deferred income	2	-
Other	3	-
	<u>2,542</u>	<u>1,904</u>
Total trade and other payables		

£346 million (2022: £89 million) of the trade payables is interest bearing under bills of exchange.

17. Net cash and loans

	31 March 2023 £m	31 March 2022 £m
Current		
Amount owed from group undertakings	2,765	1,252
Other borrowings	(73)	-
Net current loans	<u>2,692</u>	<u>1,252</u>
Cash and cash equivalents	26	22
Net cash and current loans	<u>2,718</u>	<u>1,274</u>

Notes to the Financial Statements (continued)

17. Net cash and loan assets (continued)

	31 March 2023 £m	31 March 2022 £m
Non-current		
Other borrowings	(27)	-
Non-current loans	<u>(27)</u>	<u>-</u>

Amounts owed from group undertakings are via a loan facility arrangement that is interest bearing.

During the period the Company entered into the sale of cash flows related to contract assets related to mobile handsets where the performance obligations have been substantially delivered to the customer of £100 million (2022: £nil). The right to receive cash is dependent on the Company's further performance in relation to airtime and so a financial liability has been recognised as other borrowings and the related cashflows have been included within financing activities in the cash flow statement.

18. Derivative financial instruments

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

Hedging activities

Derivatives may qualify as hedges for accounting purposes if they meet the criteria for designation as fair value hedges or cash flow hedges in accordance with IFRS9.

Cash flow hedges

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

All cash flow hedges were fully effective in the period.

Gains and losses associated with hedging activities are as follows:

	31 March 2023 £m	31 March 2022 £m
(Gain)/Loss recycled through income statement	(5)	3
Gain recognised in equity during the year	5	1
Deferred tax relating to cash flow hedges	<u>-</u>	<u>(1)</u>
	<u>-</u>	<u>3</u>

The losses recycled through the income statement have been taken through finance expense £nil (2022: £nil), operating costs £2 million gain (2022: £1 million loss) and other operating expense £3 million gain (2022: £2 million loss).

Notes to the Financial Statements (continued)

19. Provisions

	Onerous Leases	ARO	Network share and other	Supplier Commitments	Total
	£m	£m	£m	£m	£m
At 1 April 2022	1	227	4	21	253
Increase in period	-	-	2	-	2
(Decrease) in the period	-	(90)	-	-	(90)
Utilisation	-	(5)	(1)	(21)	(27)
Discount unwind	-	3	-	-	3
At 31 March 2023	<u>1</u>	<u>135</u>	<u>5</u>	<u>-</u>	<u>141</u>
Analysis of provisions by maturity:					
At 31 March 2023					
Short term	-	40	4	-	44
Long term	<u>1</u>	<u>95</u>	<u>1</u>	<u>-</u>	<u>97</u>
	<u>1</u>	<u>135</u>	<u>5</u>	<u>-</u>	<u>141</u>
At 31 March 2022					
Short term	-	23	1	21	45
Long term	<u>1</u>	<u>204</u>	<u>3</u>	<u>-</u>	<u>208</u>
	<u>1</u>	<u>227</u>	<u>4</u>	<u>21</u>	<u>253</u>

Asset retirement obligation ("ARO")

The Company is required to dismantle equipment and restore sites and properties under operating leases. The ARO provision is based on the best estimate of the amount required to settle the obligation. It is discounted by applying a discount rate that reflects the passage of time. This estimate is revised annually and adjusted against the asset to which it relates, which is then subject to an impairment assessment. These costs are expected to be incurred over a period of up to 50 years.

20. Pensions

The Company has both defined benefit and defined contribution retirement benefit plans. The Company's main plans are:

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

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

- The BT Retirement Saving Scheme (BTRSS) is a defined contribution, contract-based, plan operated by Standard Life.

Notes to the Financial Statements (continued)

20. Pensions (continued)

Defined contribution plans

The pension cost for the defined contribution plans, which represents contributions payable by the Company, amounted to £34 million (2022: £16 million). Included in employee related payables is £1 million (2022: £1 million) in respect of contributions payable to the plans.

Defined benefit plans

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

The estimated duration of the defined benefit liabilities, which is an indicator of the weighted average term of the liabilities, is around 21 years although the benefits are expected to be paid over more than 70 years. 81% of the liabilities relate to non-pensioners.

Amounts recognised on the balance sheet

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

	31 March 2023 £m	31 March 2022 £m
Value of assets	749	1,004
Present value of scheme liabilities	(713)	(1,017)
Surplus / (Deficit) ^a	36	(13)
Net pension surplus / (deficit)	36	(13)

^a In the context of IFRIC 14, the Company is not required to limit any pension surplus or recognise additional pensions liabilities as economic benefits are available in the form of either future refunds or reductions to future contributions. In particular, a refund of surplus is available following the gradual settlement of the liabilities over time when there are no members remaining in the EEPS.

Key actuarial assumptions

The main financial assumptions used to measure the IAS 19 liabilities were as follows:

	31 March 2023 %	31 March 2022 %
Discount rate	4.65	2.70
RPI inflation	3.30 / 3.20 *	3.45 / 3.35*
CPI inflation	2.30 / 3.20 *	2.45 / 3.35*
Pension increases (accrued before 6 April 2006)	3.30 / 3.20 *	3.45 / 3.35*
Pension increases (accrued after 6 April 2006)	2.50	2.50

*Before / after 2030 respectively

Notes to the Financial Statements (continued)

20. Pensions (continued)

IAS 19 requires that the discount rate is determined by reference to market yields at the balance sheet date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension liabilities. The discount rate assumption was calculated by applying projected benefit cash flows of the EEPS to a corporate bond yield curve constructed by an independent actuary based on the yield on AA rated corporate bonds.

The RPI inflation assumption was calculated by applying the projected benefit cash flows for the EEPS to an inflation curve derived from market yields on government bonds, and making an adjustment for an inflation risk premium (to reflect the extra premium paid by investors for inflation linked assets), currently 20 bps before 2030 and 30 bps after 2030. The CPI inflation assumption is calculated with reference to the RPI inflation assumption taking into account market forecasts and independent estimates of the expected difference.

In 2020, it was announced that RPI will be aligned with CPIH from 2030 onwards. Therefore, CPI inflation is assumed to be in line with RPI inflation after 2030, as historically CPI and CPIH inflation have been broadly comparable. Before 2030, CPI inflation is assumed to be 1% lower than RPI inflation, reflecting the latest published inflation forecasts.

The longevity assumption takes into account: the actual mortality experience of the EEPS pensioners, based on a formal review carried out for the 2021 triennial funding valuation; and future improvements in longevity based on the CMI's 2021 Mortality Projections model published by the UK actuarial profession.

There is significant uncertainty as to the impact of the Covid-19 pandemic on future life expectancy. The Company continues to assume that following the pandemic there is a short-term increase in deaths compared to the assumptions adopted prior to the pandemic and the Company has fully allowed for population mortality data from 2022, but not data from 2020 and 2021.

The Company continues to assume mortality will improve in the long-term by 1% per year

Based on the IAS 19 longevity assumptions, the forecast life expectancies at age 65 are as follows:

	31 March 2023 Years	31 March 2022 Years
Current pensioners (male member aged 65 today)	21.8	22.3
Future pensioners (male member aged 40 today)	22.3	22.9

Asset allocation

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

	31 March 2023 £m	31 March 2022 £m
A) Investments quoted in active markets		
Global equities	6	260
B) Unquoted investments		
Corporate bonds, derivatives and hedge funds	467	422
Property / Illiquid funds	267	313
C) Cash and cash equivalents	<u>9</u>	<u>9</u>
Total	<u>749</u>	<u>1,004</u>

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

Notes to the Financial Statements (continued)

20. Pensions (continued)

Financial derivatives (e.g. swaps) are used to reduce the mismatch between movements in the liabilities and the assets from changes in interest rates and inflation. This provides greater stability in the funding position, and therefore the deficit contributions that may be required from the Company. While the use of derivatives reduces funding risk, it increases the plan's liquidity requirements which is factored into the overall investment strategy. Following the impact of the September 2022 mini-budget on derivatives, the Bank of England and the Pensions Regulator issued guidance on the minimum level of collateral pension schemes should hold. At 31 March 2023, the EEPS held more collateral than these minimum levels.

Movements in defined benefit plan assets and liabilities

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

£m	Assets	Liabilities	Surplus / (Deficit)
At 31 March 2021	935	(1,128)	(193)
Operating cost: current service cost	-	(1)	(1)
Interest income/(expense)	20	(24)	(4)
Included in the Company income statement	20	(25)	(5)
Return on plan assets above that included in the Company income statement	24	-	24
Actuarial gain from demographic assumptions	-	9	9
Actuarial gain arising from changes in financial Assumptions	-	121	121
Actuarial loss from experience adjustments	-	(9)	(9)
Included in the statement of comprehensive income	24	121	145
Deficit contributions by employer	40	-	40
Benefits paid	(15)	15	-
At 31 March 2022	1,004	(1,017)	(13)
Operating cost: current service cost	-	(1)	(1)
Interest income/(expense)	27	(27)	-
Included in the Company income statement	27	(28)	(1)
Return on plan assets below that included in the Company income statement	(282)	-	(282)
Actuarial loss from demographic assumptions	-	(5)	(5)
Actuarial gain arising from changes in financial assumptions	-	379	379
Actuarial loss from experience adjustments	-	(55)	(55)
Included in the statement of comprehensive income	(282)	319	37
Deficit contributions by employer	13	-	13
Benefits paid	(13)	13	-
At 31 March 2023	749	(713)	36

Risk exposure from the EEPS

The assumptions on the discount rate, inflation and life expectancy all have a significant effect on the measurement of the plan liabilities. The table below provides an indication of the sensitivity of the IAS 19 increase to pension liabilities:

	31 March 2023	31 March 2022
	£m	£m
0.25% decrease in discount rate	37	65
0.25% increase in inflation*	23	49
One year increase to life expectancy (for someone currently aged 65)	18	37

Notes to the Financial Statements (continued)

20. Pensions (continued)

*The prior period figures have been restated due to the sensitivities for RPI and CPI inflation increases being combined in the current year. The prior year's figure has been updated to be the sum of the RPI and CPI sensitivities.

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

EEPS funding

A funding valuation is carried out for the Trustee by a professionally qualified independent actuary at least every three years. The funding valuation assesses the on-going financial health of the EEPS. If there are insufficient assets to meet the estimated future benefit payments to members (i.e. a funding deficit), the Company and the Trustee agree the amount and timing of additional cash contributions. It is prepared using the principles set out in UK Pension legislation, such as the 2004 and 2021 pensions acts, and uses a prudent approach overall when setting the actuarial assumptions. The Trustee invests in a way which partly hedges interest and inflation risk. The approach currently seeks to hedge around 65% of the impact on the funding liabilities. The impact on the funding liabilities from changes in interest rates (i.e. the discount rate) and inflation will differ to the sensitivities shown above, due to differences in the assumptions used.

The most recent triennial valuation of the defined benefit section was performed as at 31 December 2021 and agreed in March 2023. This showed a funding deficit of £218 million. The Company is scheduled to contribute £1.7 million each month until 31 July 2025 plus a one-off payment of £11.7 million in April 2023. A further payment of up to £80 million is payable by 31 March 2026, subject to the results of the 2024 triennial valuation. £13.3 million (2022: £40 million) of deficit contributions were paid by the Company to the EEPS during the year.

21. Share capital and reserves

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

Share capital

	31 March 2023 £m	31 March 2022 £m
Issued and fully paid		
22,050,306 Ordinary shares of £1 each	22	22

Share premium account

Share premium is £1,638 million (2022: £1,638 million).

Capital contribution reserve

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

Cash flow hedge reserve

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

Notes to the Financial Statements (continued)

22. Dividends paid

	Year ended 31 March 2023 £m	Year ended 31 March 2022 £m
Dividends declared and paid	<u>600</u>	<u>681</u>
Dividend per share (£ / share)	<u>£27.21</u>	<u>£30.88</u>

23. Capital and financial commitments

Purchase commitments

The Company has £216 million of device commitments as at 31 March 2023 (2022: £288 million).

Capital commitments

The Company has £321 million of capital commitments as at 31 March 2023 (2022: £299 million), including its share of the MBNL joint arrangement's capital commitments of £24 million (2022: £52 million).

Contingent liabilities

Phones 4U

Since 2015 the administrators of Phones 4U Limited have made allegations that EE and other mobile network operators colluded to procure Phones 4U's insolvency. Legal proceedings for an unquantified amount were issued in December 2018 by the administrators. The trial on the question of liability/breach ran from May to July 2022. The parties are now awaiting judgment, and the court has not yet indicated when it will be delivered. A second trial on quantum would be required in the event of a finding for the claimant. The Company continue to dispute these allegations vigorously.

24. Events after the reporting period

No significant events have occurred after the reporting period.

25. Ultimate parent undertaking

The immediate parent undertaking is EE Group Investments Limited, a company incorporated in England & Wales.

The ultimate parent company and controlling party is BT Group Plc, a company incorporated in England & Wales. BT Group Plc is the parent of the largest and BT Plc is the parent of the smallest group to consolidate these financial statements. The consolidated financial statements of the ultimate parent company BT Group Plc, are available on the group website, www.btplc.com or from the Company Secretary at the registered office, 1 Braham Street, London, United Kingdom, E1 8EE.

Consequently the Company is exempt under the terms of IAS 24 "Related Party Disclosures" from disclosing details of transactions and balances with BT Group Plc and fellow group subsidiaries provided such subsidiaries are wholly owned members of the group during the year ended 31 March 2023.

26. Related party transactions

During the financial year the Company received income of £6 million (2022: £5 million) and incurred expenditure of £22 million (2022: £21 million) with Midland Communications Distribution Limited, a 35% joint venture. At the year end £1 million (2022: £1 million) was due to and £1 million (2022: £2 million) was due from Midland Communications Distribution Limited. The receivable is unsecured and no guarantees have been received.