BT Group plc

Q1 2015/16 results
30 July 2015
Forward-looking statements caution

Certain statements in this presentation are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: our 2015/16 outlook, including growth in revenue, EBITDA and free cash flow; EPS and net debt; further cost transformation; growing dividends and continued share buyback; our investment in superfast fibre, fibre broadband take-up and ultrafast broadband trialling; and our investment in TV and BT Sport, and our BT Sport Europe and BT Sport Ultra HD TV offerings.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory and legal actions, decisions, outcomes of appeal and conditions or requirements in BT’s operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs, or impact on customer service; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the timing of entry and profitability of BT in certain communications markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; uncertainties and assumptions relating to the proposed EE acquisition, conditions of the acquisition not being satisfied and the anticipated synergies, benefits and return on investment not being realised; and general financial market conditions affecting BT’s performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.
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Gavin Patterson, Chief Executive
Q1 overview

- 4 out of 5 premises can now get our superfast fibre broadband
  - original base-case assumption of 20% penetration now achieved

- Mobile plans off to a good start
  - >100,000 customers in 3 months

- Adding great content to BT TV and BT Sport
  - AMC, BT Sport EUROPE, BT Sport ULTRA HD

- Solid start to the financial year
  - on track for full year outlook
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Tony Chanmugam, Group Finance Director
## Q1 results on track for full year outlook

<table>
<thead>
<tr>
<th>Metric</th>
<th>£</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>£4,278m</td>
<td>-2%</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td>flat</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>£1,449m</td>
<td>+1%</td>
</tr>
<tr>
<td><strong>EPS</strong></td>
<td>6.7p</td>
<td>+3%</td>
</tr>
<tr>
<td><strong>Normalised free cash flow</strong></td>
<td>£106m</td>
<td>down £16m</td>
</tr>
<tr>
<td><strong>Net debt</strong></td>
<td>£5,819m</td>
<td>down £1,260m</td>
</tr>
</tbody>
</table>

1 before specific items
2 excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
3 before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
Steady reduction in operating costs

Underlying opex\(^1\) ex transit down 1%; down 3% ex headwinds disclosed at Q4

\(^1\) before specific items and depreciation and amortisation
\(^2\) no benefit this year from the sale of redundant copper, higher pensions operating charge, higher leaver costs and investment in BT Sport Europe
\(^3\) excluding impact of headwinds

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Cost transformation examples

Still >£1bn of gross cost saving opportunities

- **Pan BT - field engineering**
  - improving cost efficiency and quality, reducing lead times
  - cross-skilling engineers
  - reviewing third-party suppliers

- **Global Services - contract delivery**
  - review of how we design and deliver new contracts
  - c.£20m opportunity

- **Global Services - contact centres**
  - reviewing end-to-end processes to reduce cost of failure
  - extending best practice, introducing standardised measures for assessing productivity
  - c.£70m opportunity
Strong market-wide demand for fibre broadband

Increase in base-case assumption for future fibre take-up

<table>
<thead>
<tr>
<th></th>
<th>Original</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Across fibre network</td>
<td>20%</td>
<td>28%</td>
</tr>
<tr>
<td>Within BDUK areas</td>
<td>20%</td>
<td>30%</td>
</tr>
</tbody>
</table>
Capex – impact of new fibre take-up assumption

- £103m grant funding for network investment in quarter (Q1 2014/15: £78m)

- Implying capex after funding of £558m
  - up £42m YoY

- Increase in base-case fibre take-up assumption drives £100m deferral of grant funding earned to date
  - will be repaid or re-invested in future financial years

- Resulting in net capex of £658m
  - up £142m YoY
2015/16 outlook\(^1\) unchanged

<table>
<thead>
<tr>
<th><strong>Underlying revenue(^2) ex transit</strong></th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA(^3)</strong></td>
<td>Modest growth</td>
</tr>
<tr>
<td><strong>Normalised free cash flow(^4)</strong></td>
<td>Around £2.8bn</td>
</tr>
<tr>
<td><strong>Dividend per share</strong></td>
<td>Up 10-15%</td>
</tr>
</tbody>
</table>

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\(^1\) standalone BT, excluding any impact of planned EE acquisition

\(^2\) excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

\(^3\) before specific items

\(^4\) before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
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Gavin Patterson, Chief Executive
Global Services – ongoing UK headwinds

- Underlying revenue ex transit down 4%
  - UK down 12%, mainly lower public sector revenue
  - strong growth in AMEA

- Underlying operating costs ex transit down 4%
  - lower revenue and benefits of cost transformation

- EBITDA down 7% ex FX
  - impact of leaver costs and major health programmes moving into service and maintenance phase
  - Q1 decline disappointing but not reflective of FY expectation

- Operating cash outflow of £292m (Q1 2014/15: £337m outflow)
  - usual seasonal phasing of working capital

- More cyber-security products launched

- Good order intake, up 14%
  - 12-month rolling up 4%

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<table>
<thead>
<tr>
<th></th>
<th>Q1 2015/16</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,543m</td>
<td>(6)%</td>
</tr>
<tr>
<td>- u/l ex transit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>£190m</td>
<td>(11)%</td>
</tr>
</tbody>
</table>

12-month rolling operating cash flow
Business – steady financial performance

- Underlying revenue ex transit down 1%, in line with recent quarters
  - voice down 6% due to migration to VoIP
  - data & networking up 3%
  - IT services up 3%

- Underlying operating costs ex transit down 1%

- EBITDA flat
  - changing margin mix offset by cost transformation

- Operating cash flow down 39%
  - last year benefited from working capital timing

- Order intake down 6%
  - 12-month rolling down 3%

<table>
<thead>
<tr>
<th>Q1 2015/16</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£749m</td>
</tr>
<tr>
<td>- u/l ex transit</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>£240m</td>
</tr>
</tbody>
</table>

![YoY change in underlying revenue ex transit](image)
Consumer – good operational progress

- **Consistent revenue growth, up 3%**
  - broadband and TV up 7%
  - ARPU up 5% to £419

- **EBITDA up 7%**
  - strong performance across voice and broadband
  - expected to decline in Q2 with launch of BT Sport Europe

- **Operating cash flow of £211m, down 7%**
  - investment in broadband capacity and customer service

- **>100,000 BT Mobile customers added in first 3 months**

- **Consumer line loss broadly in line with last quarter**

- **85,000 retail broadband net adds**¹
  - 57% of market² growth
  - 217,000 retail fibre net adds

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1 includes business customers
2 DSL & fibre

**Q1 2015/16**

<table>
<thead>
<tr>
<th></th>
<th>Q1 2015/16</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,074m</td>
<td>3%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£254m</td>
<td>7%</td>
</tr>
</tbody>
</table>

**BT TV net adds**

- **0**
- **10**
- **20**
- **30**
- **40**
- **50**
- **60**
- **70**
- **80**

- **Q1**
- **Q2**
- **Q3**
- **Q4**
- **Q1**
- **Q2**
- **Q3**
- **Q4**
- **Q1**

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Consumer – exciting developments in TV and Sport

BT TV

- 60,000 customers added in quarter
- Base now 1.2m
- Continuing to enhance offering
  - AMC channel launching in late August
  - leading US TV network
  - partnership with HBO Home Entertainment for download-to-own

BT Sport

- Average daily viewing up >50%
- BT Sport Pack launching on 1 August
  - including BT Sport ULTRA HD
  - first ultra HD (4K) live sports channel in Europe
  - £15/month for ‘Entertainment Ultra HD’ TV package
  - free with BT TV
- showing all 351 UEFA Champions League and UEFA Europa League games this season
Wholesale – improved performance

- Underlying revenue ex transit up 5%
  - managed solutions revenue up 4%
  - good growth in IP services, up 32%
  - c.£15m benefit relating to ladder pricing

- Underlying operating costs ex transit up 3%
  - higher volumes in managed solutions
  - partly offset by a 17% decline in SG&A costs

- EBITDA up 11%
  - reflects ladder pricing benefit

- Operating cash flow of £117m, up £106m YoY
  - working capital timing

- Order intake £351m, up 33%
  - 12-month rolling up 20%

### Q1 2015/16 YoY change

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£530m</td>
<td>1%</td>
</tr>
<tr>
<td>- u/l ex transit</td>
<td>£140m</td>
<td>11%</td>
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</tbody>
</table>

### 12-month rolling order intake

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Q3</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Q4</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Q2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Openreach – strong fibre progress

- Revenue flat
  - c.£40m impact from regulation
  - offset by 42% growth in fibre broadband
- Operating costs down 2%
- EBITDA up 2%
  - despite no benefit from sale of redundant copper
- Operating cash flow of £270m, down 9%
  - growth in EBITDA offset by higher capex
- 389,000 net fibre connections, up 14%
  - c.4.6m premises connected, 20% of those passed
- Physical line base down 6,000
  - up 196,000 over past 12 months
- Business Connectivity Market Review
  - we disagree with Ofcom’s ‘starting price adjustment’
  - dark fibre proposal would disadvantage small operators, reduce investment and impact customer service

<table>
<thead>
<tr>
<th></th>
<th>Q1 2015/16</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,249m</td>
<td>flat</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£639m</td>
<td>2%</td>
</tr>
</tbody>
</table>

Openreach fibre penetration

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Ofcom’s Strategic Review of Digital Communications

- Ofcom paper published 16 July
  - discussion only, no regulatory proposals

- Review offers scope to deregulate

- We believe the current model of functional separation has been successful and should remain to encourage investment

- Ofcom needs to provide long-term regulatory certainty

- Opportunity to create a more level playing field in pay-TV
Improving Openreach customer service

- Running ahead of all 60 minimum service levels\(^1\) set by Ofcom for 2015/16, which are more stretching than those in 2014/15

- Continued investment in service is delivering improvements:

  \[\begin{array}{|c|c|c|}
  \hline
  \text{Better appointment availability} & \text{Keeping our commitments} & \text{Fixing faults faster} \\
  \text{Installing Ethernet faster} & \text{Installation requiring an engineer where offered appointment is 1 or more working days above SLA} & \text{Faults fixed within agreed time (maintenance level 1 & 2)} \\
  \text{8 days} & \text{12\%} & \text{75\%} \\
  \text{7 days} & \text{0.8\%} & \text{77\%} \\
  \text{Average time for first available installation date} & \text{Installation requiring an engineer where offered appointment is 1 or more working days above SLA} & \text{Mean time to install (working days)} \\
  \text{67 days} & \text{62 days} & \\
  \hline
\end{array}\]

\(^1\)In July 2014, Ofcom introduced minimum service levels for the installation of new lines and for repairs to existing services.

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Q1 summary

- Improved revenue performance, steady reduction in costs
- Continued investment to support sustainable profitable revenue growth
  - new products driving orders from business customers
  - exciting developments in sport, TV and mobile
  - pushing fibre further
  - an improving picture on customer service

Building a strong platform for growth
BT Group plc

Q&A
## Income statement

<table>
<thead>
<tr>
<th>£m</th>
<th>Q1 2015/16</th>
<th>YoY change</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (^1)</td>
<td>4,278</td>
<td>(2)%</td>
<td>£48m negative impact from FX, £24m reduction in transit revenue</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td>flat</td>
<td>improvement on 1.3% decline in Q4</td>
<td></td>
</tr>
<tr>
<td>EBITDA (^1)</td>
<td>1,449</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Operating profit (^1)</td>
<td>821</td>
<td>5%</td>
<td>depreciation and amortisation down 4%</td>
</tr>
<tr>
<td>Profit before tax (^1)</td>
<td>694</td>
<td>9%</td>
<td>net finance expense down 9%</td>
</tr>
<tr>
<td>EPS (^1)</td>
<td>6.7p</td>
<td>3%</td>
<td>number of shares in issue up 6%</td>
</tr>
<tr>
<td>Specific items (^2)</td>
<td>(51)</td>
<td>(27)%</td>
<td>mainly net interest expense on pensions of £55m</td>
</tr>
</tbody>
</table>

\(^1\) before specific items  
\(^2\) net charge after tax
## Free cash flow

<table>
<thead>
<tr>
<th>£m</th>
<th>Q1 2015/16</th>
<th>YoY change</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>1,449</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Capex</td>
<td>(626)</td>
<td>(96)</td>
<td>reflects phasing</td>
</tr>
<tr>
<td>Interest</td>
<td>(183)</td>
<td>22</td>
<td>lower net debt</td>
</tr>
<tr>
<td>Tax</td>
<td>(88)</td>
<td>45</td>
<td>benefit from large share option maturity in Aug 2014</td>
</tr>
<tr>
<td>Working capital &amp; other</td>
<td>(446)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td><strong>Normalised FCF</strong></td>
<td>106</td>
<td>(16)</td>
<td></td>
</tr>
<tr>
<td>Cash tax benefit of pension deficit payments</td>
<td>69</td>
<td>50</td>
<td>reflects lump sum deficit payments</td>
</tr>
<tr>
<td>Specific items</td>
<td>(52)</td>
<td>28</td>
<td>mainly restructuring costs of £51m</td>
</tr>
<tr>
<td><strong>Reported FCF</strong></td>
<td>123</td>
<td>62</td>
<td></td>
</tr>
</tbody>
</table>

1 before specific items  
2 before cash tax benefit of pension deficit payments
Other financial information

- **Pension**

<table>
<thead>
<tr>
<th>IAS 19, £bn</th>
<th>30 June 15</th>
<th>31 March 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities – BTPS</td>
<td>(49.7)</td>
<td>(50.7)</td>
</tr>
<tr>
<td>Assets – BTPS</td>
<td>42.8</td>
<td>43.4</td>
</tr>
<tr>
<td>Other schemes</td>
<td>(0.3)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Deficit – gross of tax</td>
<td>(7.2)</td>
<td>(7.6)</td>
</tr>
<tr>
<td>Deficit – net of tax</td>
<td>(5.8)</td>
<td>(6.1)</td>
</tr>
</tbody>
</table>

- £625m deficit payment to BTPS in April
- despite this, BTPS assets declined due to market conditions, offset by a reduction in liabilities due to a higher real discount rate

- **Debt and liquidity**

- net debt of £5.8bn at 30 June 2015
- up £0.7bn since 31 March 2015, mainly due to £625m pension deficit payment
- down c.£1.3bn YoY
- cash & investments of £2.6bn at 30 June 2015
- committed undrawn facilities of >£5bn
  - includes £3.6bn facility for EE acquisition
- £0.5bn bond repaid in Q1
- £0.8bn debt matured in July
  - further £0.3bn repayable in rest of 2015/16

- **Share buyback**

- £189m spent in Q1
- continue to expect to spend c.£300m for the year