Q1 2014/15 results
31 July 2014
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BT Group plc

Tony Chanmugam, Group Finance Director
## Q1 2014/15 group results

<table>
<thead>
<tr>
<th>Metric</th>
<th>Amount</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>£4,354m</td>
<td>(2%)</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td></td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>£1,435m</td>
<td>flat</td>
</tr>
<tr>
<td><strong>EPS</strong></td>
<td>6.5p</td>
<td>10%</td>
</tr>
<tr>
<td><strong>Normalised free cash flow</strong></td>
<td>£122m</td>
<td>up £182m</td>
</tr>
<tr>
<td><strong>Net debt</strong></td>
<td>£7,079m</td>
<td>down £979m</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, purchases of telecommunications licences, pension deficit payments & cash tax benefit of pension deficit payments
Cost transformation

- Improving our call centres
  - increasing efficiency and reducing overheads
  - new terms and conditions for new hires
  - insourcing back to the UK
  - c.£150m

- Improving utilisation of our fleet
  - reducing fuel consumption; vehicle sharing
  - c.£10m

- Replicating forensic UK approach overseas
  - process improvements
  - network optimisation
  - supplier value-for-money
  - reducing cost of failure
  - c.£300m

Q1 opex\(^1\) down 3% excluding BT Sport

\(^1\) underlying operating costs excluding transit
Regulation

- Copper
  - Ofcom confirmed new price controls for 2014/15 to 2016/17
  - £80-100m impact on Openreach in 2014/15
    - Group impact materially lower
    - Full impact from Q2
  - Limited YoY impact in 2015/16 and 2016/17
Regulation

- **Fibre**
  - wholesale fibre rental price unregulated until at least 2017
  - margin squeeze
    - TalkTalk’s Competition Act complaint rejected
    - consultation underway on ex ante assessment

- **Ladder pricing**
  - Supreme Court found in our favour
  - starting proceedings to recover money from MNOs
Other financial information

- **Pension**
  - IAS19 deficit £5.8bn net of tax (Q4 2013/14: £5.6bn)
    - higher deficit reflects lower real discount rate
  - >25% of longevity risk insured
  - actuarial valuation has commenced
    - Crown Guarantee won’t be taken into account

- **Strong liquidity position**
  - 5-year EUR 1bn bond issued in quarter
  - At 30 June, cash & investments of £2.2bn; available facilities of further £1.5bn
    - £0.5bn debt matured in July, further £0.2bn repayable in rest of 2014/15

- **Share buyback**
  - 39m shares acquired; £141m cash cost in quarter
  - we continue to expect to spend c.£300m for the year
### Outlook unchanged

<table>
<thead>
<tr>
<th></th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying revenue ex transit</td>
<td>Broadly level with 2013/14</td>
<td>Growth</td>
</tr>
<tr>
<td>EBITDA(^1)</td>
<td>£6.2bn-£6.3bn</td>
<td>Growth</td>
</tr>
<tr>
<td>Normalised FCF</td>
<td>Above £2.6bn</td>
<td>Growth</td>
</tr>
<tr>
<td>Dividends</td>
<td>Up 10-15%</td>
<td>Up 10-15%</td>
</tr>
</tbody>
</table>

\(^1\) before specific items
Our purpose, goal, strategy and culture

Our purpose: To use the power of communications to make a better world

Our goal: A growing BT: to deliver sustainable profitable revenue growth

Our strategy:
- Broaden and deepen our customer relationships
- Deliver superior customer service
- Transform our costs
- Invest for growth
  - Fibre
  - TV and content
  - Mobility and future voice
  - UK business markets
  - Leading global companies

Our culture: A healthy organisation

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Deliver superior customer service

**Progress on service since Q4**
- Improved one-contact resolution
- >20% faster delivery of main Global Services products over last 4 months
- Faster repair times
- Consumer complaints down c.20% versus Q4
- ‘Right First Time’ measure up

**Future focus**
- To deliver a step-change in service:
  - **Infrastructure**
    - increase network resilience
  - **Systems and tools**
    - introduce new diagnostic tools
    - improve online capabilities
  - **Support**
    - provide dedicated help for complex service enquiries
    - recruit additional engineers
    - rebalance our resources
Global Services – continuing to deliver on costs

- Underlying revenue ex transit down 2%
  - lower UK public sector revenue
  - partly offset by high-growth regions
- Underlying operating costs ex transit down 2%
- EBITDA up 1%
  - up 4% excluding FX
- Operating cash outflow of £337m
  - usual seasonal phasing
  - c.£60m of early receipts in Q4
- £1.1bn order intake, down 38%
  - large renewal in prior year
  - down 8% on a 12-month rolling basis
Business – progress on costs driving EBITDA growth

- Underlying revenue ex transit down 3% 
  - voice down 4% partly reflecting migration to VoIP
  - IT services down 2% due to lower hardware sales

- Operating costs down 5%

- EBITDA up 2% 
  - reflects cost transformation programmes

- Operating cash inflow of £190m, up 74% 
  - up 9% on a 12-month rolling basis

- Order intake up 3%

<table>
<thead>
<tr>
<th></th>
<th>Q1 2014/15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£762m</td>
<td>(3%)</td>
</tr>
<tr>
<td>- u/l ex transit</td>
<td>£240m</td>
<td>2%</td>
</tr>
</tbody>
</table>
## Business – mobility and future voice

### BT One Phone Office

- Converged fixed-mobile voice solution
  - dedicated indoor mobile network; seamless handover to national mobile network
  - cloud-based system; intelligent call management
- Customer benefits
  - single supplier
  - high-quality indoor coverage & capacity
  - improved flexibility and productivity
  - lower total cost of ownership

### BT Business Mobile

- New 4G MVNO mobile plans launching soon
- Wide range of handsets and call/data plans

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**Cloud-based phone system**

- PBX
- Multiple numbers to one phone

**BT One Phone Office**

<table>
<thead>
<tr>
<th>Converged fixed-mobile voice solution</th>
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<tr>
<td>- dedicated indoor mobile network</td>
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<tr>
<td>- seamless handover to national mobile network</td>
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<tr>
<td>- cloud-based system; intelligent call management</td>
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**Customer benefits**

- single supplier
- high-quality indoor coverage & capacity
- improved flexibility and productivity
- lower total cost of ownership

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**BT Business Mobile**

- New 4G MVNO mobile plans launching soon
- Wide range of handsets and call/data plans
Consumer – another strong quarter

- Revenue up 10%
  - broadband & TV up 26%
- EBITDA up 3%
- Consumer line loss of 69,000
  - 47% better than last year
- 64% share of broadband market\(^1\) net adds
- 226,000 retail fibre broadband net adds
  - customer base over 2.3m
- 40,000 TV customers added\(^2\)
- BT Sport base continued to grow

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<th>Change</th>
</tr>
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<tbody>
<tr>
<td>Revenue</td>
<td>£1,046m</td>
<td>10%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£238m</td>
<td>3%</td>
</tr>
</tbody>
</table>

\(^1\) DSL and fibre, excluding cable
\(^2\) excludes removal of 35,000 inactive customers from TV base

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Wholesale – ongoing challenges

- Underlying revenue ex transit down 14%
  - managed solutions down 21%, includes Post Office contract termination
  - calls, lines & circuits down 23% driven by NBMR regulation
  - IP services up 42%

- Underlying operating costs ex transit down 12%
  - lower cost of sales
  - SG&A down 17%

- EBITDA down 20%

- Order intake £264m, down 48%
  - down 18% on a 12-month rolling basis

### Q1 2014/15 Change

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<thead>
<tr>
<th></th>
<th>Q1 2014/15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£525m</td>
<td>(18%)</td>
</tr>
<tr>
<td>- u/l ex transit</td>
<td>£126m</td>
<td>(14%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td>(20%)</td>
</tr>
</tbody>
</table>

### 12-month rolling order intake

![Graph showing order intake](chart.png)
Openreach – stable performance, regulatory headwind

- Revenue flat
  - c.£40m impact from regulation
  - fibre revenue up 46%
- Operating costs down 3%
  - efficiencies offset pay inflation and additional engineers
- EBITDA up 3%
- Fibre progress
  - >20m premises passed
  - 341,000 net connections in Q1
  - >3m premises connected, 15% of those passed
- 12,000 increase in physical lines
  - base up 82,000 YoY

### Q1 2014/15 Change

<table>
<thead>
<tr>
<th></th>
<th>Q1 2014/15</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,245m</td>
<td>flat</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£624m</td>
<td>3%</td>
</tr>
</tbody>
</table>

**Fibre rollout – premises passed**

![Fibre rollout chart](chart.png)
Q1 summary

- Good start to the year
- Investments continue to deliver
- Further progress on cost transformation

Building a strong platform for growth
BT Group plc

Back up
## Income statement

<table>
<thead>
<tr>
<th></th>
<th>Q1 2014/15</th>
<th>Change</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong>¹</td>
<td>4,354</td>
<td>(2%)</td>
<td>£71m negative impact from FX</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td></td>
<td></td>
<td>£46m reduction in transit revenue</td>
</tr>
<tr>
<td><strong>EBITDA</strong>¹</td>
<td>1,435</td>
<td>flat</td>
<td></td>
</tr>
<tr>
<td><strong>Operating profit</strong>¹</td>
<td>783</td>
<td>5%</td>
<td>depreciation and amortisation down 6%</td>
</tr>
<tr>
<td><strong>Profit before tax</strong>¹</td>
<td>638</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td><strong>EPS</strong>¹</td>
<td>6.5p</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td><strong>Specific items</strong>²</td>
<td>(70)</td>
<td>(39%)</td>
<td>includes restructuring charges of £44m and net interest expense on pensions of £73m</td>
</tr>
</tbody>
</table>

¹ before specific items  
² net charge after tax
# Free cash flow

<table>
<thead>
<tr>
<th>£m</th>
<th>Q1 2014/15</th>
<th>Change</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>1,435</td>
<td>(5)</td>
<td>reflects phasing of expenditure</td>
</tr>
<tr>
<td>Capex</td>
<td>(530)</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>(205)</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Tax</td>
<td>(133)</td>
<td>(102)</td>
<td>reflects timing of tax payments in prior year</td>
</tr>
<tr>
<td>Working capital &amp; other</td>
<td>(445)</td>
<td>202</td>
<td>mainly timing of working capital in Business, Consumer and Wholesale</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Normalised FCF</th>
<th>122</th>
<th>182</th>
<th>reflects working capital movements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash tax benefit of pension deficit payments</td>
<td>19</td>
<td>(1)</td>
<td>includes restructuring charges of £63m and property rationalisation costs of £9m</td>
</tr>
<tr>
<td>Specific items</td>
<td>(80)</td>
<td>54</td>
<td></td>
</tr>
</tbody>
</table>

**Reported FCF** 61 | 235 |