BT Group plc

Q2 2013 results
1 November 2012
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: current and future years’ outlook, including revenue trends, EBITDA and normalised free cash flow; the impact of regulation; continuing cost transformation in our BT Global Services business; progressive dividends; our fibre roll-out programme; effective tax rate; and liquidity and funding.

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.

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A better business

A better future

BT Group plc

Ian Livingston, Chief Executive
### Q2 2013 group results\(^1\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue before specific items, pension deficit payments and the cash tax benefit of pension deficit payments</td>
<td>£4,474m</td>
<td>(9%)</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td>(5%)</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>£1,497m</td>
<td>flat</td>
</tr>
<tr>
<td>EPS</td>
<td>6.0p</td>
<td>7%</td>
</tr>
<tr>
<td>Normalised(^2) free cash flow</td>
<td>£316m</td>
<td>£(247)m</td>
</tr>
<tr>
<td>Interim dividend</td>
<td>3.0p</td>
<td>15%</td>
</tr>
</tbody>
</table>

\(^1\) before specific items
\(^2\) before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
Q2 2013 revenue

- Retail, Wholesale and Openreach performing to expectations
- Tough conditions for Global Services
- Expect improved trend for H2

<table>
<thead>
<tr>
<th>YoY % change</th>
<th>Q1</th>
<th>Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>(5.9%)</td>
<td>(8.6%)</td>
</tr>
<tr>
<td>FX, disposals &amp; transit</td>
<td>2.7%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Underlying revenue ex transit</td>
<td>(3.2%)</td>
<td>(5.5%)</td>
</tr>
<tr>
<td>Q2 2012 accelerated GS milestones</td>
<td></td>
<td>1.4%</td>
</tr>
<tr>
<td>Ladder pricing</td>
<td></td>
<td>0.5%</td>
</tr>
</tbody>
</table>

(3.2%) (3.6%)

1 before specific items
## Q2 2013 EBITDA\(^1\)

<table>
<thead>
<tr>
<th>YoY % change</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q1</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1.9%</td>
</tr>
<tr>
<td>FX, disposals &amp; transit</td>
<td>0.8%</td>
</tr>
<tr>
<td>Underlying EBITDA ex transit</td>
<td>2.7%</td>
</tr>
<tr>
<td>Q2 2012 accelerated GS milestones</td>
<td></td>
</tr>
<tr>
<td>Ladder pricing</td>
<td></td>
</tr>
</tbody>
</table>

|                                                        | 2.7%       | 3.2%       |

\(^1\) before specific items
Q2 2013 line of business overview

Global Services

<table>
<thead>
<tr>
<th></th>
<th>Q2 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,757m</td>
<td>(13%)</td>
</tr>
<tr>
<td>- underlying revenue ex transit &amp; PY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>£130m</td>
<td>(18%)</td>
</tr>
</tbody>
</table>

- Underlying revenue ex transit & PY accelerated milestones down 6%
  - in line with Q1
  - tough conditions in Europe and financial services sector
  - c.10% growth in high-growth regions

- Order intake £1.3bn (Q1 2013: £1.1bn, Q2 2012: £1.4bn)

Revenue movement

1 Asia Pacific, Latin America, Middle East, Africa & Turkey
Q2 2013 line of business overview

Global Services

- Underlying operating costs ex transit down 9%
  - down 6% ex PY accelerated milestones

- 12% decline in underlying EBITDA
  - down 5% ex PY accelerated milestones

- EBITDA up sequentially on Q1

- Cash flow down by £116m
  - working capital outflow

- Q2 EBITDA less capex similar to last 2 years

- Luis Alvarez appointed CEO

EBITDA less capex
Q2 2013 line of business overview

### Retail

<table>
<thead>
<tr>
<th></th>
<th>Q2 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,791m</td>
<td>(3%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£474m</td>
<td>7%</td>
</tr>
</tbody>
</table>

#### YoY movement in operating costs

- Consumer revenue down 3%
  - lower calls & lines revenue
  - growth in broadband, driven by fibre
- 47% share of broadband\(^1\) net adds
- Retail fibre net adds c.160,000
  - now >875,000 customers
- Consumer ARPU up £5 QoQ to £355
- 21,000 BT Vision net adds

\(^1\) DSL, LLU and fibre, excluding cable
BT Sport

Building great content

Football
- Barclays Premier League
- Serie A
- Ligue 1
- MLS
- Brasileirão

Rugby Union
- Premiership Rugby
- Top 14 Rugby
- 7s Series

Building a great team

Jake Humphrey
- Anchor for Premier League coverage
- Previously BBC Sport, hosting Formula 1, Euro 2012 and London 2012

Jamie Hindhaugh
- Chief Operating Officer, BT Sport
- Previously BBC Head of Production, London 2012

Simon Green
- Director, BT Sport
- Previously CEO, BoxNation
- Held senior position at Sky Sports

Grant Best
- Executive Producer, BT Sport
- Previously director at Sky Sports and ESPN
- Won Sports Emmy for work on 2010 FIFA World Cup
Q2 2013 line of business overview

Retail

Business revenue down 3%
- withdrawal from low-margin trade sales
- SME market remains tough
- improved performance in networked IT services division, BT iNet
- improved calls & lines revenue trend

Ireland

- Revenue up 1% ex FX
- Large wholesale deal to provide voice and broadband to Sky in RoI
- Over 90% fibre coverage in NI
  - now >100,000 premises connected

YoY change in BTB revenue ex trade sales
Q2 2013 line of business overview

Retail – Enterprises

- Enterprises revenue down 2%
  - decline in BT Directories and BT Redcare

- BT Wi-fi minutes trebled to 3bn

- BT Conferencing
  - strong growth in Europe and Asia Pacific
  - US weaker

- Next generation of conferencing
  - technology partnership with Dolby Laboratories Inc.
  - makes audio conference calls more effective
  - creates impression that sounds are coming from unique points
  - clear differentiation of our conferencing service
  - launch expected in Q1 next financial year
Q2 2013 line of business overview

Wholesale

<table>
<thead>
<tr>
<th></th>
<th>Q2 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£861m</td>
<td>(12%)</td>
</tr>
<tr>
<td>- underlying revenue ex transit</td>
<td>(5%)</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>£280m</td>
<td>(8%)</td>
</tr>
</tbody>
</table>

- Excluding ladder pricing
  - underlying revenue ex transit down 2%
  - EBITDA down 1%

- Net operating costs ex transit down 3%
  - SG&A down 22%

- IP Exchange minutes up nearly 90%

- Order intake c.£300m

- Extended relationship with EE to underpin 4G services

Revenue & EBITDA ex ladder pricing

<table>
<thead>
<tr>
<th></th>
<th>Q1 2011</th>
<th>Q2 2012</th>
<th>Q3 2012</th>
<th>Q4 2012</th>
<th>Q1 2013</th>
<th>Q2 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>420</td>
<td>410</td>
<td>390</td>
<td>380</td>
<td>350</td>
<td>330</td>
</tr>
</tbody>
</table>

1 Q4 2012 excludes retrospective regulatory charge
Q2 2013 line of business overview

Openreach

<table>
<thead>
<tr>
<th></th>
<th>Q2 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,269m</td>
<td>(1%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£582m</td>
<td>3%</td>
</tr>
</tbody>
</table>

- Growth in Ethernet and fibre
- Impact of regulatory price changes
- Net operating costs down 4%
  - despite significant additional costs due to adverse weather
- 38,000 reduction in physical lines
  - more repair activity
  - increase in provision lead times
- 174,000 broadband\(^1\) net adds

Total UK broadband customers\(^2\)

\(^1\) DSL, LLU and fibre, excluding cable

\(^2\) Source: company data
Fibre roll-out

- >12m premises now passed
- Now expect to pass two-thirds of UK premises during spring 2014
  - >18 months ahead of original schedule
- Take-up encouraging
  - >950,000 fibre customers connected
  - >10% penetration in first 5 phases of roll-out
- BDUK progress
  - 5 BDUK bids won to date
  - Surrey and North Yorkshire signed in quarter
  - North Yorkshire - first customers to be connected within 6 months of signing contract
  - preferred bidder
    - Cumbria, Norfolk and Suffolk awarded in Q2
    - Devon & Somerset awarded in October
London 2012

- Communications provided to 94 venues
- All contractual milestones successfully delivered on time or ahead of schedule
- 7x the bandwidth of the Beijing Games
- Olympic Park was largest high-density public wi-fi installation in the world
- >1m attended BT London Live during the Games
- BT was the most recognised London 2012 partner

1 Nielsen research
Summary

- Another solid quarter of earnings growth despite
  - economic conditions in Europe
  - regulatory impacts

- Strong delivery on cost efficiencies

- Investing in future of the business

- Good progress in most lines of business
  - more we can do in Global Services
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Tony Chanmugam, Group Finance Director
Impact of ladder pricing

- August 2011: CAT finds in favour of ladder pricing
- July 2012: Court of Appeal overrules CAT judgment
- Seeking leave to appeal Court of Appeal decision

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>Q1</th>
<th>FY previously expected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td>29</td>
<td>56</td>
<td>24</td>
<td>c.110</td>
</tr>
<tr>
<td>- transit</td>
<td>-</td>
<td>27</td>
<td>13</td>
<td>c.50</td>
</tr>
<tr>
<td>- non-transit</td>
<td>29</td>
<td>29</td>
<td>11</td>
<td>c.60</td>
</tr>
<tr>
<td>EBITDA (£m)</td>
<td>29</td>
<td>29</td>
<td>11</td>
<td>c.60</td>
</tr>
<tr>
<td>Cash (£m)</td>
<td>-</td>
<td>63</td>
<td></td>
<td>c.60</td>
</tr>
</tbody>
</table>

Impact in Q2: Specific item charge reversed
## Q2 2013 income statement

<table>
<thead>
<tr>
<th>£m</th>
<th>Q2 2013</th>
<th>Change</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4,474</td>
<td>(9%)</td>
<td>▶ transit down £79m</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▶ £74m negative FX impact</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td>(5%)</td>
<td></td>
<td>▶ 1.9ppt due to ladder pricing &amp; PY accelerated milestones</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▶ macro conditions, regulatory price reductions, lower calls &amp; lines revenue</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,497</td>
<td>flat</td>
<td>▶ underlying ex ladder pricing &amp; PY accelerated milestones up 3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>▶ underlying costs down 10%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>775</td>
<td>4%</td>
<td>▶ lower depreciation</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>608</td>
<td>7%</td>
<td>▶ lower net finance expense</td>
</tr>
<tr>
<td>Tax</td>
<td>(138)</td>
<td>flat</td>
<td>▶ 22.7% effective tax rate</td>
</tr>
<tr>
<td>EPS</td>
<td>6.0p</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>

1 before specific items
### Q2 2013 specific items

<table>
<thead>
<tr>
<th>£m</th>
<th>Q2 2013</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>(85)</td>
<td>- ladder pricing in 2011 &amp; 2012</td>
</tr>
<tr>
<td>Operating costs</td>
<td>(50)</td>
<td>- ladder pricing (£27m credit), provision for claims (£43m), OnLive impairment (£17m), GS restructuring (£17m)</td>
</tr>
<tr>
<td>Net finance income</td>
<td>8</td>
<td>- net interest on pensions</td>
</tr>
<tr>
<td>Profit on disposal of</td>
<td>121</td>
<td>- disposal of 14.1% interest in Tech Mahindra</td>
</tr>
<tr>
<td>interest in associate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net charge before tax</td>
<td>(6)</td>
<td>- tax credit on specific items (£23m), deferred tax impact of tax rate change (£78m credit)</td>
</tr>
<tr>
<td>Tax</td>
<td>101</td>
<td></td>
</tr>
<tr>
<td>Net credit after tax</td>
<td>95</td>
<td></td>
</tr>
</tbody>
</table>
## Q2 2013 Free Cash Flow

<table>
<thead>
<tr>
<th>£m</th>
<th>Q2 2013</th>
<th>Change</th>
<th>Key Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA(^1)</td>
<td>1,497</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Capex</td>
<td>(619)</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>(129)</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Tax</td>
<td>(181)</td>
<td>(37)</td>
<td>higher taxable profits</td>
</tr>
<tr>
<td>Working capital &amp; other</td>
<td>(252)</td>
<td>(213)</td>
<td>customer billing &amp; receipts</td>
</tr>
<tr>
<td><strong>Normalised(^2) FCF</strong></td>
<td>316</td>
<td>(247)</td>
<td></td>
</tr>
<tr>
<td>Cash tax benefit of pension deficit payments</td>
<td>162</td>
<td>54</td>
<td>relating to £2bn pension payment in March</td>
</tr>
<tr>
<td><strong>Adjusted(^1) FCF</strong></td>
<td>478</td>
<td>(193)</td>
<td></td>
</tr>
<tr>
<td>Specific items</td>
<td>(90)</td>
<td>(48)</td>
<td>ladder pricing in 2011 &amp; 2012, GS restructuring &amp; property rationalisation</td>
</tr>
<tr>
<td><strong>Reported FCF</strong></td>
<td>388</td>
<td>(241)</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) before specific items

\(^2\) before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
Q2 2013 change in net debt

- 30 Jun 12: £9,142m
- Reported FCF: £388m
- Disposal: £157m
- Option exercise proceeds: £81m
- Share buyback: £72m
- Dividends: £444m
- Other: £5m
- 30 Sep 12: £9,037m
Q2 2013 cost transformation

£77m

£55m

£56m

£128m

£119m

Q2 2013 opex

£3,063m

Q2 2012 opex

FX & disposals

PY accelerated milestones

Net labour costs

Transit/POLOs

Other cost savings

£3,498m

£435m opex reduction in Q2

£752m opex reduction in H1

Opex = operating expenditure before specific items, depreciation & amortisation and other operating income
## Cost transformation Global Services

### In progress

**Network**
- Migration off legacy platform completed
  - c.£20m additional annualised savings

**Procurement**
- Access improvement programme
  - c.£30m annualised savings
- Supplier tail programme
  - 15,000 suppliers

**Process**
- Migration of contract management to shared service centres
  - c.180 contracts, c.£20m annualised savings

### Short-term

**Network**
- Network optimisation
  - new PoPs in Asia, LatAm and EMEA
  - customer circuit capacity reviews

**Procurement**
- CPE field services and distribution procurement improvements

**Process**
- End-to-end ‘lead to cash’ process efficiency
- New contract management shared service locations in LatAm and Malaysia

### Medium-term

**Network**
- Further legacy platform migrations
- Optimise use of owned network assets

**Procurement**
- Continuous improvement of access procurement and processes
- Insourcing

**Process**
- End-to-end service process efficiency
- End-to-end back office efficiency
Liquidity and pensions

Liquidity

- Strong liquidity position
  - cash & investments of £1.6bn and committed facility of £1.5bn
- £0.3bn debt repaid in quarter
- £2.0bn of borrowings repayable in H2 2013

Pensions

- IAS19 deficit £4.0bn gross of tax
  - £3.1bn net of tax
  - higher deficit reflects lower discount rate and lower RPI/CPI differential

Repayment of debt in H2

- H2 cashflow
- Facility £1.5bn
- Cash & investments £1.6bn
- Borrowings repayable £2.0bn
- Funding headroom

Change in IAS19 deficit¹

<table>
<thead>
<tr>
<th>Date</th>
<th>Discount rate &amp; inflation</th>
<th>RPI/CPI differential</th>
<th>Asset value</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 Mar 12</td>
<td>£2.4bn</td>
<td></td>
<td></td>
<td></td>
<td>£4.0bn</td>
</tr>
</tbody>
</table>

¹ gross of tax
## Outlook

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying</strong></td>
<td><strong>Improved trend for H2 vs H1</strong></td>
<td><strong>FY impacted by ladder pricing and tougher conditions for GS</strong></td>
<td><strong>Improving trend</strong></td>
</tr>
<tr>
<td><strong>revenue ex transit</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA(^1)</strong></td>
<td><strong>Growth</strong></td>
<td></td>
<td><strong>Broadly level with 2013</strong></td>
</tr>
<tr>
<td></td>
<td>– despite ladder pricing and tougher conditions for GS</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Normalised(^2) FCF</strong></td>
<td><strong>Broadly level with 2012</strong></td>
<td><strong>&gt;£2.2bn</strong></td>
<td><strong>c.£2.5bn</strong></td>
</tr>
</tbody>
</table>

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\(^1\) before specific items

\(^2\) before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
Shareholder returns **progressive dividends**

**Dividends per share**

- **2010**: 6.9p (+7%)
- **2011**: 7.4p (+12%)
- **2012**: 8.3p (+15%)
- **2013**: 3.0p (+10-15%)
- **2014**: +10-15%
- **2015**: +10-15%
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Q&A