BT Group plc

Q2 2014/15 results

30 October 2014
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Q2 overview

- Solid set of results
- Good progress on cost transformation
- Investments are delivering
- Outlook remains unchanged
## Q2 2014/15 group results

<table>
<thead>
<tr>
<th>Category</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue¹</td>
<td>(2)%</td>
</tr>
<tr>
<td>- underlying² ex transit</td>
<td>0.2%</td>
</tr>
<tr>
<td>EBITDA¹</td>
<td>1%</td>
</tr>
<tr>
<td>EPS¹</td>
<td>15%</td>
</tr>
<tr>
<td>DPS</td>
<td>15%</td>
</tr>
<tr>
<td>Normalised free cash flow³</td>
<td>down £77m</td>
</tr>
<tr>
<td>Net debt</td>
<td>down £1,011m</td>
</tr>
</tbody>
</table>

**Notes:**

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 and the cash tax benefit of pension deficit payments
Q2 2014/15 operating costs\(^1\)

Down 4%; underlying ex transit down 1%

\(^1\) before specific items and depreciation and amortisation
Cost transformation

- **BT Conferencing**
  - move to BT Global Services allows scale to be leveraged
  - process automation; sharing customer service and back office functions

- **Contact centres**
  - consolidating and removing sub-scale operations
  - standardising technology and processes
  - rebalancing and reprioritising activities between the UK and overseas

- **New group-wide Central Business Services capability**
  - supporting contract management & accounting, procurement, financial services and HR
  - simplifying the way we work and using best practice to improve efficiency and service

- **Travel and subsistence**
  - savings from purchasing tickets in advance
  - increased use of video conferencing
Debt and liquidity

- Net debt down £16m in Q2
  - down >£1bn YoY

- Strong liquidity and funding position
  - cash & investments of £1.8bn
  - available facility of further £1.5bn
    - extended to Sep 2019

- £0.5bn debt matured in July
  - £0.2bn due in rest of 2014/15
Other financial information

- **Pension**
  - IAS 19 deficit £5.9bn net of tax (Q1 2014/15: £5.8bn)
  - higher deficit reflects lower real discount rate
  - actuarial valuation underway

- **Share buyback**
  - 12m shares acquired in Q2
  - £197m spent in H1
  - continue to expect to spend c.£300m for the year

---

1 includes service cost, regular contributions and interest on deficit
Ladder pricing
- £58m recognised as a specific item credit in Q2; reinstating 2010/11 and 2011/12 revenue
- too early to assess ongoing benefit
- Ofcom to change the pricing structure of non-geographic calls in June 2015

Ethernet
- CAT judgment on appeals of December 2012 Ofcom determination on Ethernet pricing
- CAT judged that we should pay interest on the amounts overcharged
- specific item charge of £53m in Q2; includes review of our regulatory risk position
### Outlook unchanged

<table>
<thead>
<tr>
<th></th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying revenue</strong>¹ ex transit</td>
<td>Broadly level with 2013/14</td>
<td>Growth</td>
</tr>
<tr>
<td><strong>EBITDA</strong>²</td>
<td>£6.2bn - £6.3bn</td>
<td>Growth</td>
</tr>
<tr>
<td><strong>Normalised FCF</strong>³</td>
<td>Above £2.6bn</td>
<td>Growth</td>
</tr>
</tbody>
</table>

¹ excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
² before specific items
³ before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments
Shareholder returns

Dividend per share

<table>
<thead>
<tr>
<th>Year</th>
<th>Interim Dividend</th>
<th>Final Dividend</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td>6.9p (+7%)</td>
<td>4.6p (+4%)</td>
<td>2.3p (--)</td>
</tr>
<tr>
<td>2010/11</td>
<td>7.4p (+12%)</td>
<td>5.0p (+8%)</td>
<td>2.4p (--)</td>
</tr>
<tr>
<td>2011/12</td>
<td>8.3p (+14%)</td>
<td>5.7p (+15%)</td>
<td>2.6p (--)</td>
</tr>
<tr>
<td>2012/13</td>
<td>9.5p (+15%)</td>
<td>6.5p (+13%)</td>
<td>3.0p (--)</td>
</tr>
<tr>
<td>2013/14</td>
<td>10.9p (+10-15%)</td>
<td>7.5p (+15%)</td>
<td>3.4p (--)</td>
</tr>
<tr>
<td>2014/15</td>
<td>10.9p (+10-15%)</td>
<td>7.5p (+15%)</td>
<td>3.9p (--)</td>
</tr>
<tr>
<td>2015/16</td>
<td>10.9p (+10-15%)</td>
<td>7.5p (+15%)</td>
<td>3.9p (--)</td>
</tr>
</tbody>
</table>

Outlook:
- Final dividend: +10-15%
- Interim dividend: +14%
- Final dividend: +13%
- Outlook: +15%
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
Deliver superior customer service

<table>
<thead>
<tr>
<th>Customer First ambition</th>
<th>Progress in Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five themes to deliver a step change in service</td>
<td>Further improvement in one-contact resolution</td>
</tr>
<tr>
<td>Acting on insight</td>
<td>– &gt;7% better than Q4</td>
</tr>
<tr>
<td>Keeping customers connected</td>
<td>Average speed of delivery improved</td>
</tr>
<tr>
<td>– &gt;5% better than Q4</td>
<td>Faster repair times in Business and Openreach</td>
</tr>
<tr>
<td>Creating great systems and tools</td>
<td>‘Right First Time’ measure up</td>
</tr>
<tr>
<td>Working end-to-end</td>
<td></td>
</tr>
<tr>
<td>Supporting our people</td>
<td></td>
</tr>
</tbody>
</table>

Reducing the cost of failure
Invest for growth

<table>
<thead>
<tr>
<th>Fibre</th>
<th>TV and content</th>
<th>Mobility and future voice</th>
<th>UK business markets</th>
<th>Leading global companies</th>
</tr>
</thead>
</table>
| >21m premises passed  
  – c.570,000 passed in BDUK areas in Q2 | BT Sport  
  – customer base continues to grow  
  – Premier League audience up c.45%  
  – BT Sport Extra red button launched | Business  
  – good early demand for BT One Phone  
  – new 4G mobile plans launched | New products  
  – IP voice services  
  – BT Cloud Voice  
  – Wholesale Hosted Centrex  
  – new broadband portfolio including IT support & Office 365  
  – streamlined IT services portfolio | New products  
  – BT Assure Threat Defence  
  – BT Compute Storage |
| G.FAST  
  – successful field trials | BT TV  
  – ‘Download to own’ going well  
  – NETFLIX coming soon | Consumer  
  – working towards mobile launch this FY | Expanding network  
  – 3 new cloud-enabled data centres in Q2  
  – taking Ethernet Connect to 15 new countries |
Global Services – improved revenue performance

- Underlying revenue ex transit down 1%
  - lower public sector revenue in UK
  - improved performances in other regions

- Underlying operating costs ex transit down 2%
  - continued focus on cost transformation

- EBITDA up 2%
  - up 5% excluding FX

- Operating cash inflow of £35m
  - down £56m due to working capital

- £1.3bn order intake, down 14%
  - 12-month rolling also down 14% but improved mix

<table>
<thead>
<tr>
<th></th>
<th>Q2 2014/15</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,649m</td>
<td>(5)%</td>
</tr>
<tr>
<td>- u/l ex transit</td>
<td></td>
<td>(1)%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£226m</td>
<td>2%</td>
</tr>
</tbody>
</table>

12-month rolling EBITDA-capex & cashflow

£m

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Business – improved top line, strong cost control

- Underlying revenue ex transit down 1%
  - improvement from Q1 reflects IT services, data & networking
  - fibre growth, with net adds up 49%
  - voice down 4% due to migration to VoIP

- Underlying operating costs ex transit down 3%
  - total labour resource down 9%

- EBITDA up 4%
  - up 5% excluding FX

- Operating cash inflow of £231m, up 6%

- Order intake down 2%
  - 12-month rolling up 5%
Consumer – delivering top and bottom line growth

- Revenue up 7%
  - broadband & TV up 17%
  - ARPU up 7%
- EBITDA up 42%
  - strong voice and broadband performance
  - additional revenue from BT Sport
- 203,000 retail fibre broadband net adds
  - 34% of our retail broadband customers on fibre
- 88,000 broadband net adds
  - 48% share\(^1\) despite strong promotional activity in the market
- Consumer line loss of 85,000
- 38,000 TV customers added

\(^1\) share of growth in DSL and fibre broadband market, excluding cable

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<table>
<thead>
<tr>
<th></th>
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<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,056m</td>
<td>7%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£225m</td>
<td>42%</td>
</tr>
</tbody>
</table>

\[\text{EBITDA} \]

\[\begin{align*}
\text{EBITDA} & \quad \text{YoY change} \\
£m & \quad \%
\end{align*}\]

<table>
<thead>
<tr>
<th>Year</th>
<th>£m</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011/12</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>2012/13</td>
<td>650</td>
<td></td>
</tr>
<tr>
<td>2013/14</td>
<td>700</td>
<td></td>
</tr>
<tr>
<td>2014/15</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td>Consensus</td>
<td>800</td>
<td></td>
</tr>
</tbody>
</table>

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Wholesale – ongoing headwinds

- Underlying revenue ex transit down 11%
  - calls, lines & circuits down 28% driven by Narrowband Market Review
  - managed solutions down 16%
- Good growth in IP services, revenue up 61%
- Underlying operating costs ex transit down 7%
  - 13% reduction in total labour cost
- EBITDA down 21%
  - regulation accounts for around half of decline
- Order intake £249m, down 39%
  - 12-month rolling down 30% due to timing of contract re-signs

<table>
<thead>
<tr>
<th>Q2 2014/15</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£529m</td>
</tr>
<tr>
<td>- u/l ex transit</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>£125m</td>
</tr>
</tbody>
</table>

12-month rolling order intake

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Openreach – strong market demand for fibre

- Revenue down 2%
  - c.£45m impact from regulation
  - partly offset by 38% growth in fibre revenue
- Operating costs down 2%
- EBITDA down 2%
  - smaller benefit from sale of redundant copper
  - impact of regulation
- Good fibre progress
  - 344,000 net adds in Q2, up 9%
  - external net adds >40% of total
  - c.3.4m premises connected
  - 16% take-up of premises passed
- 15,000 increase in physical lines
  - base up 106,000 year on year

<table>
<thead>
<tr>
<th></th>
<th>Q2 2014/15</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,245m</td>
<td>(2)%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£627m</td>
<td>(2)%</td>
</tr>
</tbody>
</table>

Openreach fibre customers

- BT
- External

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Summary

- Galvanising the business for a step change in customer service
- Much more to go for on cost transformation
- Investments continue to deliver across the business
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Appendix
## Income statement

<table>
<thead>
<tr>
<th>£m</th>
<th>Q2 2014/15</th>
<th>YoY change</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4,383</td>
<td>(2)%</td>
<td>£77m negative impact from FX</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>£36m reduction in transit revenue</td>
</tr>
<tr>
<td>- under</td>
<td></td>
<td>0.2%</td>
<td>higher broadband and TV revenue in Consumer</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td></td>
<td></td>
<td>offset by reductions in Wholesale and Openreach</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,450</td>
<td>1%</td>
<td>up 2% excluding FX</td>
</tr>
<tr>
<td>Operating profit</td>
<td>832</td>
<td>10%</td>
<td>depreciation and amortisation down 9%</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>690</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>6.9p</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Specific items</td>
<td>(107)</td>
<td>n/m</td>
<td>includes restructuring charges of £60m and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>net interest expense on pensions of £73m</td>
</tr>
</tbody>
</table>

1 before specific items
2 net charge after tax
n/m = not meaningful

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# Free cash flow

<table>
<thead>
<tr>
<th>£m</th>
<th>Q2 2014/15</th>
<th>YoY change</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>1,450</td>
<td>16</td>
<td><a href="#">reflects phasing of expenditure in year</a></td>
</tr>
<tr>
<td>Capex</td>
<td>(521)</td>
<td>113</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>(87)</td>
<td>(16)</td>
<td></td>
</tr>
<tr>
<td><strong>Tax</strong></td>
<td>(136)</td>
<td>(45)</td>
<td><a href="#">reflects timing of tax payments in prior year</a></td>
</tr>
<tr>
<td>Working capital &amp; other</td>
<td>(173)</td>
<td>(145)</td>
<td><a href="#">VAT payments lower last year</a></td>
</tr>
</tbody>
</table>

**Normalised FCF**

|                        | 533        | (77)       | [Up £105m for HY](#)                                            |
| Cash tax benefit of pension deficit payments | 19         | 0          |                                                                  |
| **Specific items**    | (75)       | (3)        | [includes restructuring costs of £54m and property rationalisation costs of £7m](#) |

**Reported FCF**

|                        | 477        | (80)       |                                                                  |

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

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