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BT Group plc

Q3 2013 results
1 February 2013
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Tony Chanmugam, Group Finance Director
## Q3 2013 income statement

<table>
<thead>
<tr>
<th>£m</th>
<th>Q3 2013</th>
<th>Change</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue¹</td>
<td>4,510</td>
<td>(6%)</td>
<td>transit down £66m</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>£50m negative FX impact</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td></td>
<td>(3%)</td>
<td>macro conditions, regulation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>better Global Services &amp; Wholesale performances</td>
</tr>
<tr>
<td>EBITDA¹</td>
<td>1,548</td>
<td>2%</td>
<td>underlying costs down 7%</td>
</tr>
<tr>
<td>Operating profit¹</td>
<td>842</td>
<td>7%</td>
<td>lower depreciation</td>
</tr>
<tr>
<td>Profit before tax¹</td>
<td>675</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>EPS¹</td>
<td>6.6p</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Specific items</td>
<td>(38)</td>
<td>n/m</td>
<td>historic Ethernet pricing, restructuring</td>
</tr>
</tbody>
</table>

¹ before specific items
## Q3 2013 free cash flow

<table>
<thead>
<tr>
<th>£m</th>
<th>Q3 2013</th>
<th>Change</th>
<th>Key points</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1,548</td>
<td>24</td>
<td>higher PY spend on Wholesale Broadband Connect</td>
</tr>
<tr>
<td>Capex</td>
<td>(586)</td>
<td>53</td>
<td>higher PY spend on Wholesale Broadband Connect</td>
</tr>
<tr>
<td>Interest</td>
<td>(210)</td>
<td>(10)</td>
<td>timing of coupons</td>
</tr>
<tr>
<td>Tax</td>
<td>(168)</td>
<td>(5)</td>
<td>timing of coupons</td>
</tr>
<tr>
<td>Working capital &amp; other</td>
<td>223</td>
<td>111</td>
<td>timing of customer receipts</td>
</tr>
<tr>
<td>Normalised FCF&lt;sup&gt;2&lt;/sup&gt;</td>
<td>807</td>
<td>173</td>
<td>timing of customer receipts</td>
</tr>
<tr>
<td>Cash tax benefit of pension deficit payments</td>
<td>157</td>
<td>157</td>
<td>relating to £2bn pension payment in March 2012</td>
</tr>
<tr>
<td>Adjusted FCF&lt;sup&gt;1&lt;/sup&gt;</td>
<td>964</td>
<td>330</td>
<td>historic Ethernet pricing, restructuring</td>
</tr>
<tr>
<td>Specific items</td>
<td>(96)</td>
<td>(48)</td>
<td>historic Ethernet pricing, restructuring</td>
</tr>
<tr>
<td>Reported FCF</td>
<td>868</td>
<td>282</td>
<td></td>
</tr>
<tr>
<td>Net debt</td>
<td>8,140</td>
<td>(404)</td>
<td>down £897m in quarter</td>
</tr>
</tbody>
</table>

<sup>1</sup> before specific items

<sup>2</sup> before specific items, pension deficit payments and cash tax benefit of pension deficit payments
Q3 2013 cost transformation

- **Global Services**
  - improved terms with suppliers

- **Non-consumer faults process**
  - migrating to shared service centres
  - earlier fault resolution and fewer hand-offs

- **Openreach engineer productivity**
  - c.£30m opportunity from better resource management

£274m opex reduction in Q3

>£1bn opex reduction YTD

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

- Group-wide restructuring programme including:
  - migration of BTID & BTO into BT TSO & lines of business
  - rationalisation of Global Services processes, resources, networks & systems
  - transformation of group-wide support functions

- Additional restructuring costs over Q4 & FY2014

- Future cost savings and improved customer service delivery
Q3 2013 other financial information

- IAS 19 deficit £4.3bn net of tax (Q2: £3.1bn)
  - increased deficit reflects higher inflation assumption
  - assets increased by £0.4bn

- Cash & investments of £2.2bn as at 31 Dec 2012
  - £1.4bn of term debt repaid in January

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1 carrying value at 31 December 2012, assuming no renewal or new facilities. Carrying value reflects final principal repayments at hedged rates
2 weighted average coupon of term debt maturing in year (including swap rates), based on carrying value of debt at hedged rates at 31 December 2012
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Ian Livingston, Chief Executive
### Q3 2013 line of business overview

#### Global Services

<table>
<thead>
<tr>
<th></th>
<th>Q3 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,746m</td>
<td>(8%)</td>
</tr>
<tr>
<td>- underlying revenue ex transit</td>
<td></td>
<td>(5%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£163m</td>
<td>13%</td>
</tr>
</tbody>
</table>

- **Underlying revenue ex transit down 5%**
  - continued tough conditions in Europe & financial services sector
  - double digit growth in high-growth regions

- **Order intake £1.9bn, up 17%**

- **Underlying operating costs ex transit down 7%**

- **Underlying EBITDA up 17%**
  - timing of costs in year, down 1% YTD

- **EBITDA less capex of £42m (Q3 2012: £5m)**

- **Cash flow £46m lower reflecting working capital**

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1 Asia Pacific, Latin America, Middle East, Africa & Turkey
Q3 2013 line of business overview

Retail

<table>
<thead>
<tr>
<th></th>
<th>Q3 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,793m</td>
<td>(3%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£474m</td>
<td>5%</td>
</tr>
</tbody>
</table>

Financial

- Consumer revenue down 3%
  - lower calls & lines revenue
  - growth in broadband
- Business revenue down 3%
  - lower calls & lines revenue
  - growth in IT services
- Ireland revenue up 5% ex FX
  - 50% of NI retail broadband base now on fibre
- Net operating costs down 6%

Operational

- 44% market share of broadband net adds

- BT Retail fibre
  - 200,000 net adds
  - >1 million customers

- Wi-fi minutes trebled to 3.9bn

- SmartTalk app launched
  - allows customers to make cheaper smartphone calls

¹DSL and fibre, excluding cable
Q3 2013 line of business overview

Retail - TV

- **BT Vision**
  - 21,000 net adds
  - now >60,000 customers with YouView boxes

- **Multicast being rolled out**
  - 18 SD channels plus 4 HD
  - available from an additional £2 per month

- **BT Sport**
  - 4 year rights deal with Women’s Tennis Association
  - Clare Balding weekly chatshow
  - production home at Olympic Park
  - Sunset+Vine chosen as lead production partner
Q3 2013 line of business overview

Wholesale

<table>
<thead>
<tr>
<th></th>
<th>Q3 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£890m</td>
<td>(9%)</td>
</tr>
<tr>
<td>- underlying revenue ex transit</td>
<td></td>
<td>(3%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£289m</td>
<td>(5%)</td>
</tr>
</tbody>
</table>

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

- Net operating costs ex transit down 2%
  - reduction in labour costs

- Order intake c.£400m

- IP Exchange minutes up >80%
Q3 2013 line of business overview

Openreach

<table>
<thead>
<tr>
<th></th>
<th>Q3 2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,274m</td>
<td>(2%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£579m</td>
<td>(2%)</td>
</tr>
</tbody>
</table>

- Revenue down 2%
  - c.£50m impact of regulatory price changes
  - growth in Ethernet & fibre

- Net operating costs down 2%
  - despite additional engineering resource

- EBITDA down 2%

- 48,000 increase in physical lines

- 281,000 broadband net adds\(^1\), up 7%

\(^1\) DSL and fibre, excluding cable
Q3 2013 line of business overview

**Fibre**

- >13m premises passed

- c.1.25m premises now connected
  - c.250,000 connected in Q3

**BDUK progress**

- 11 BDUK bids won to date
- Contracts signed in Q3
  - Cumbria
  - Herefordshire & Gloucestershire
  - Norfolk
  - Suffolk
- Preferred bidder awarded in Q3
  - Devon & Somerset
  - Wiltshire & South Gloucestershire

**Fibre in the ‘final third’**

1 As at 31 December 2012
Summary

- Solid financial performance
- Operational progress, but more to do
- Fibre roll-out continues at pace
- BT Sport plans progressing well
- On track for full year
- Detailed business update with FY results
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Q&A