

BT Group plc

Q4/full year 2013/14 results

8 May 2014

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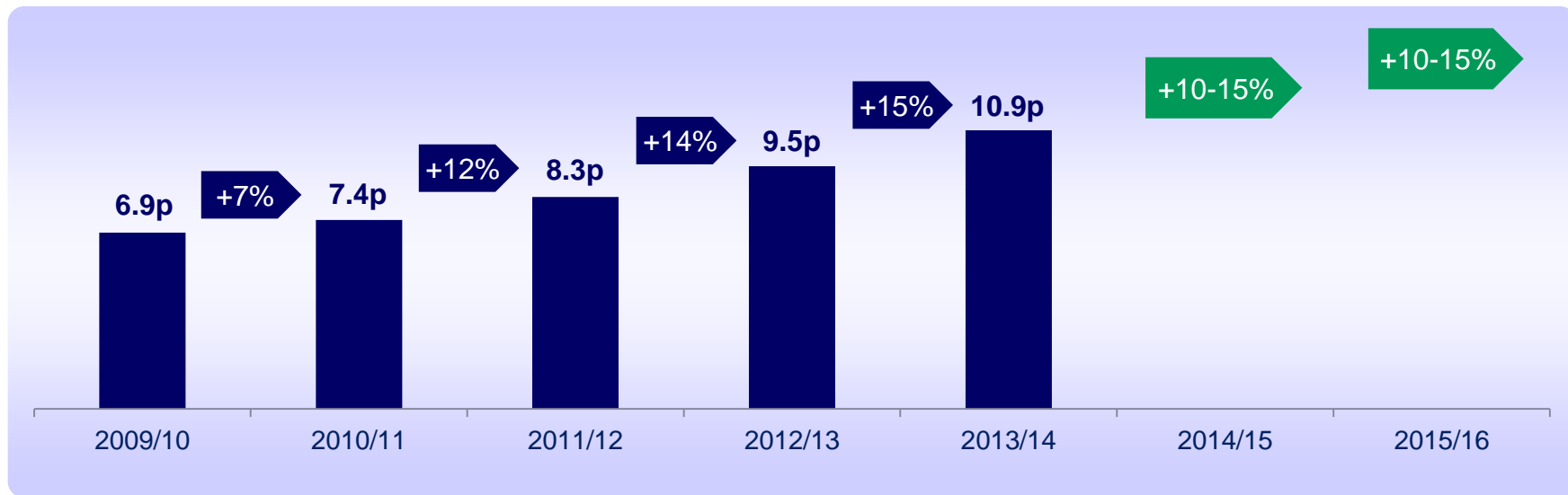
Sir Michael Rake, Chairman

Review of the year

- ▶ Investments are delivering
- ▶ Met or exceeded financial targets
- ▶ Good progress towards delivering sustainable, profitable revenue growth
- ▶ Delivering value to customers, shareholders and society

Shareholder returns

Dividend per share



- ▶ 7.5p proposed final dividend, up 15%
- ▶ Share buyback of £302m in 2013/14
 - buyback of c.£300m pa in 2014/15 and 2015/16

BT Group plc

Tony Chanmugam, Group Finance Director

FY 2013/14 results vs. outlook

	Outlook	FY 2013/14 results	
Underlying¹ revenue ex transit	Improved trend vs 2012/13	up 0.5% vs down 3.1% PY	✓
EBITDA²	£6.0bn-£6.1bn	£6,116m	✓
Normalised free cash flow³	Around £2.3bn	£2,450m	✓

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 & cash tax benefit of pension deficit payments

Q4 2013/14 group results

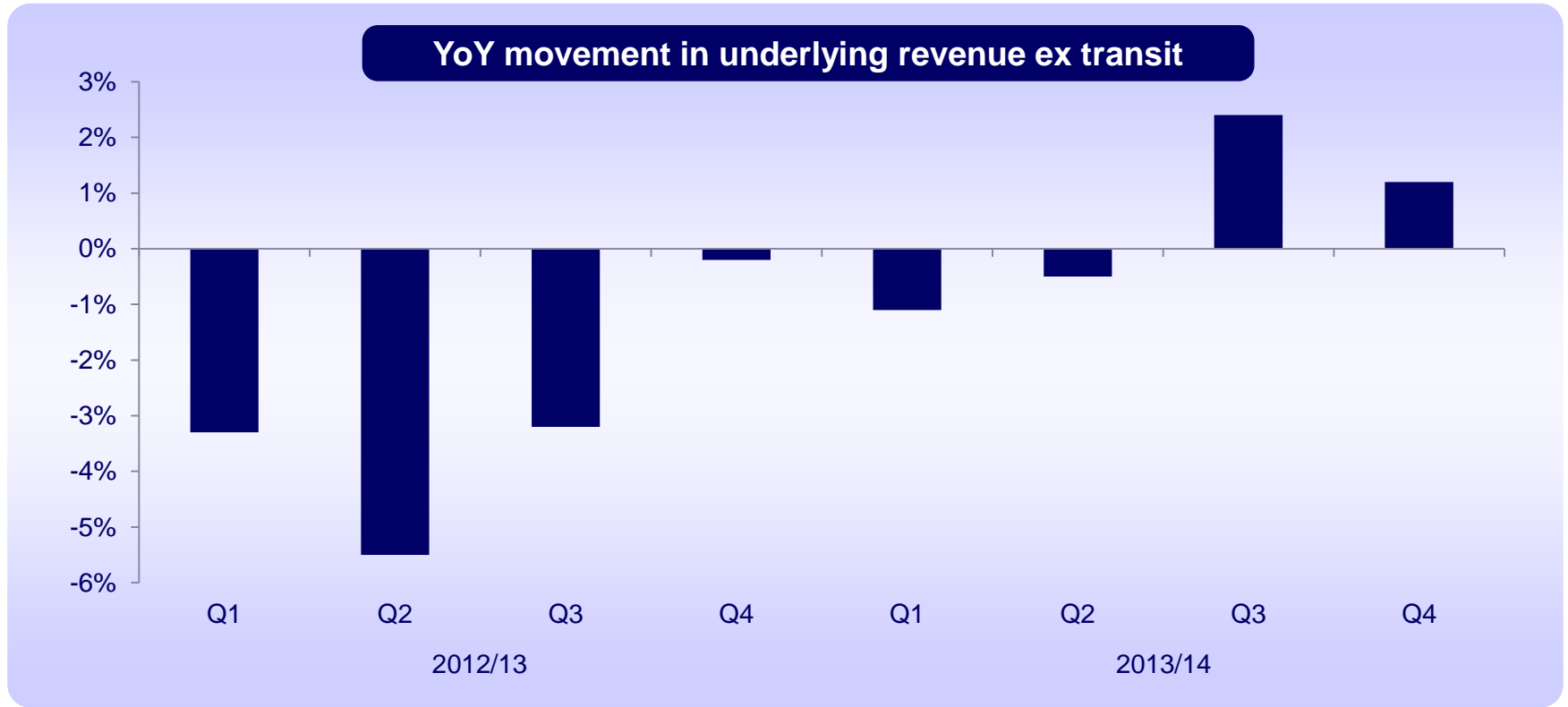
YoY change

Revenue¹	£4,748m	(1)%	▼
- underlying ex transit		1.2%	▲
EBITDA¹	£1,705m	2%	▲
EPS¹	9.0p	10%	▲
Normalised free cash flow²	£1,346m	3%	▲
Net debt	£7,028m	down £769m	▼

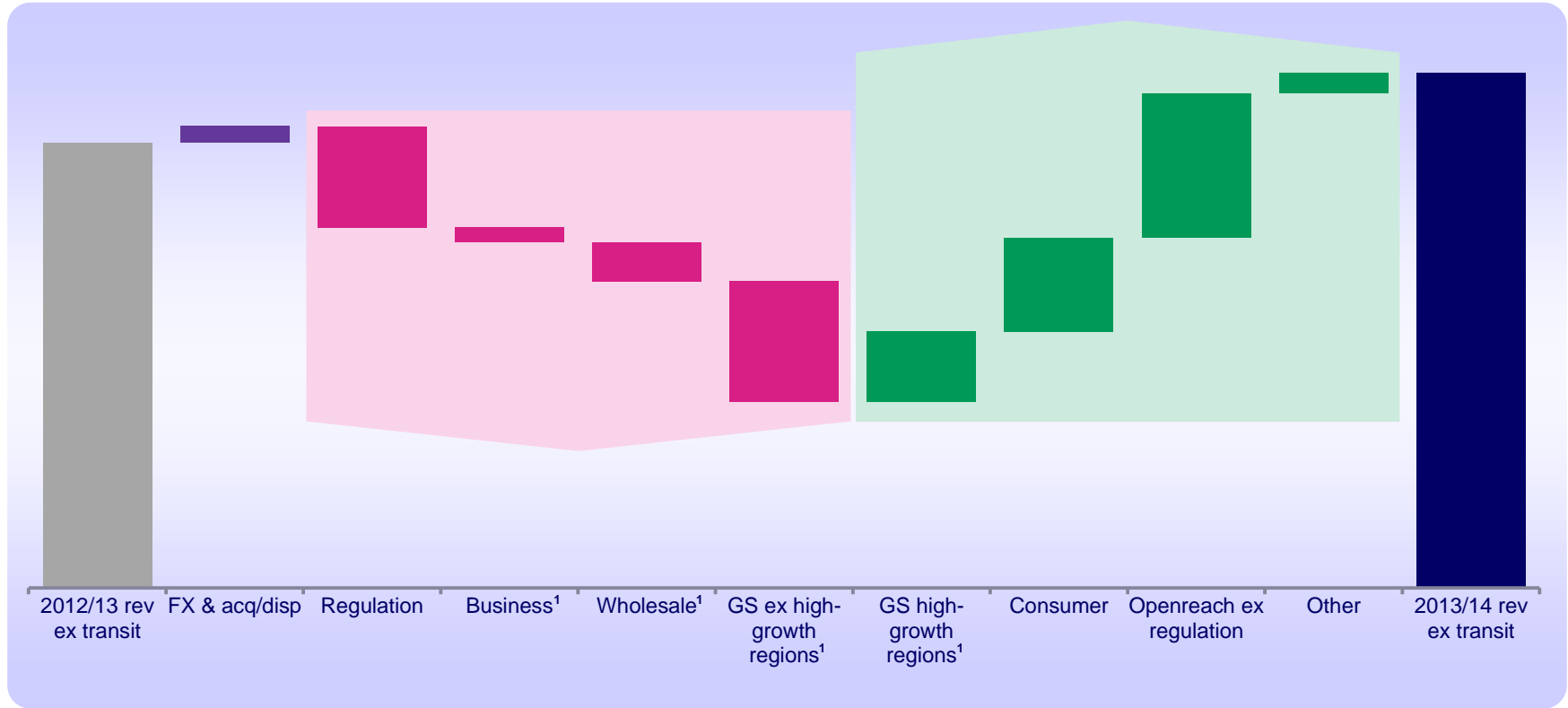
¹ before specific items

² before specific items, purchases of telecommunications licences, pension deficit payments & cash tax benefit of pension deficit payments

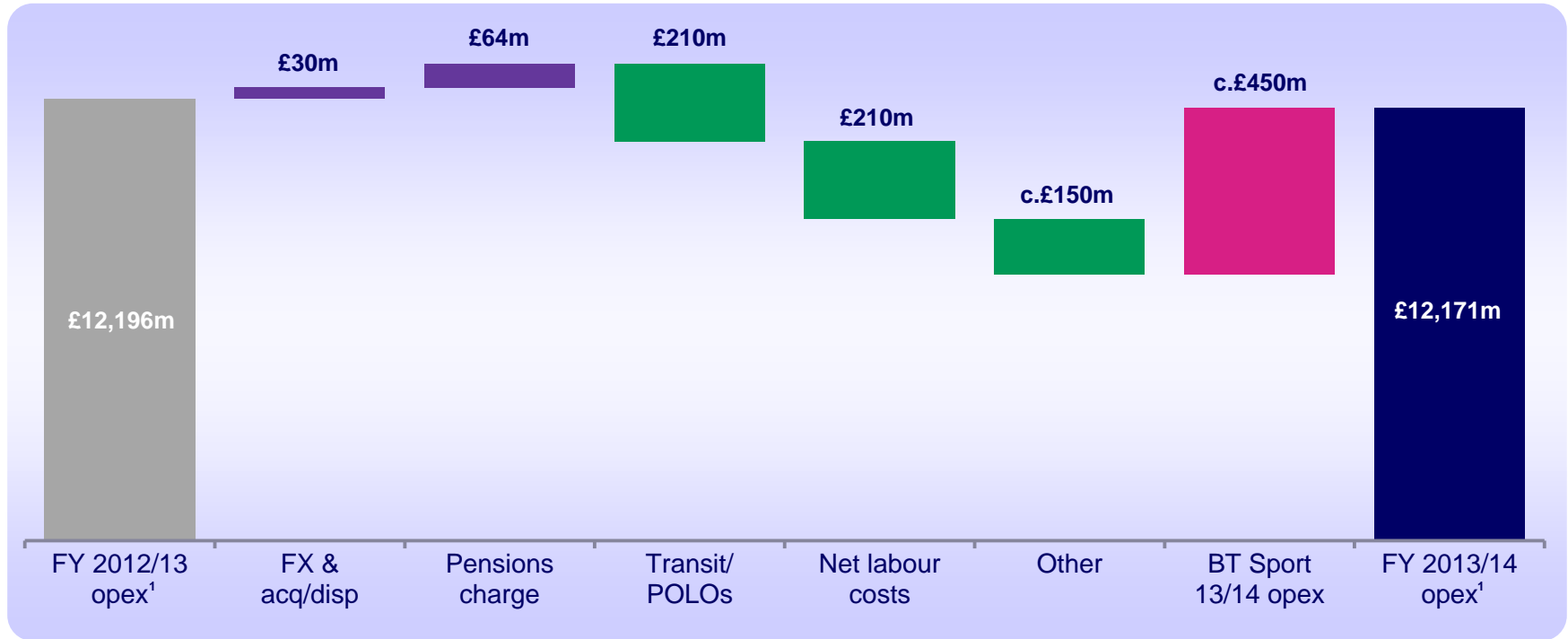
Revenue trend



FY 2013/14 external revenue



FY 2013/14 cost transformation

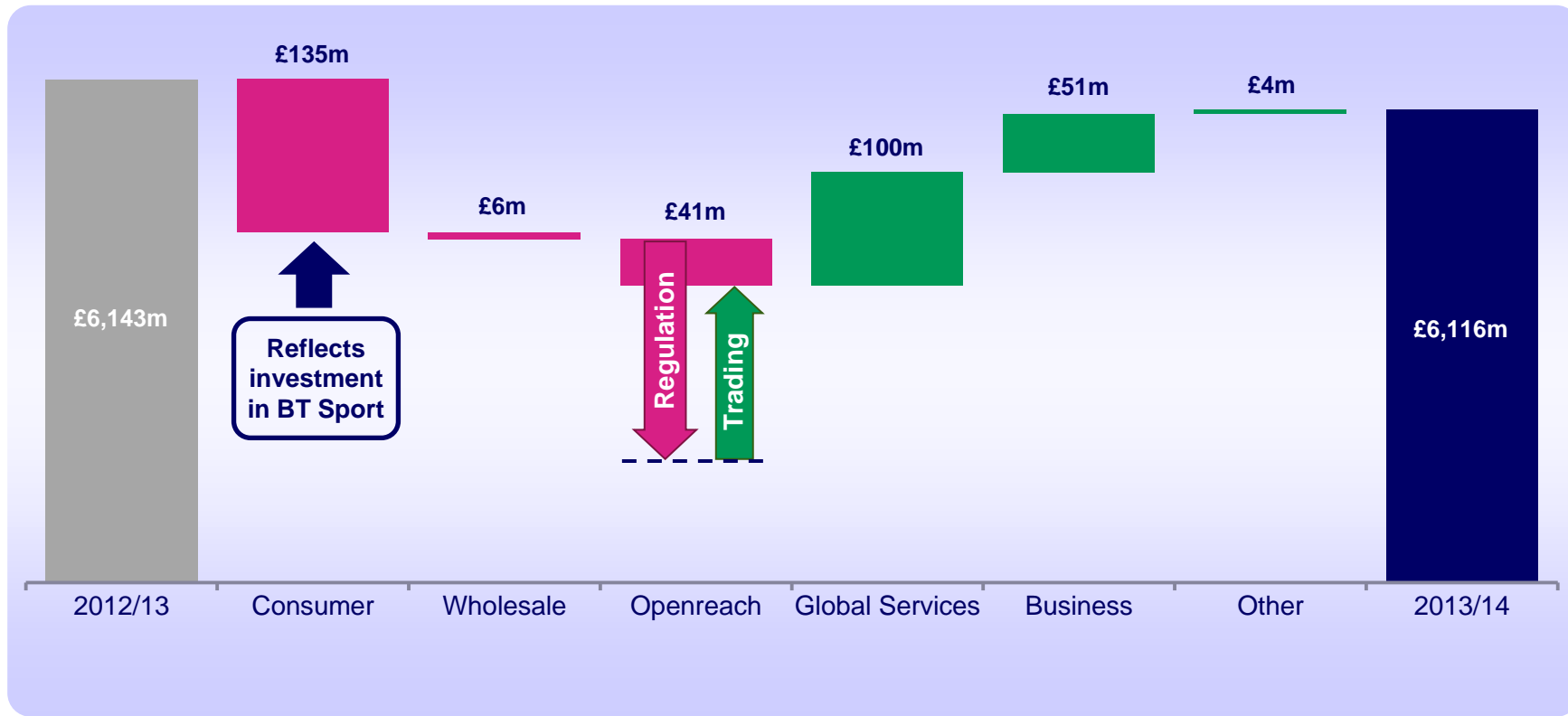


3% reduction² ex BT Sport and pensions charge increase

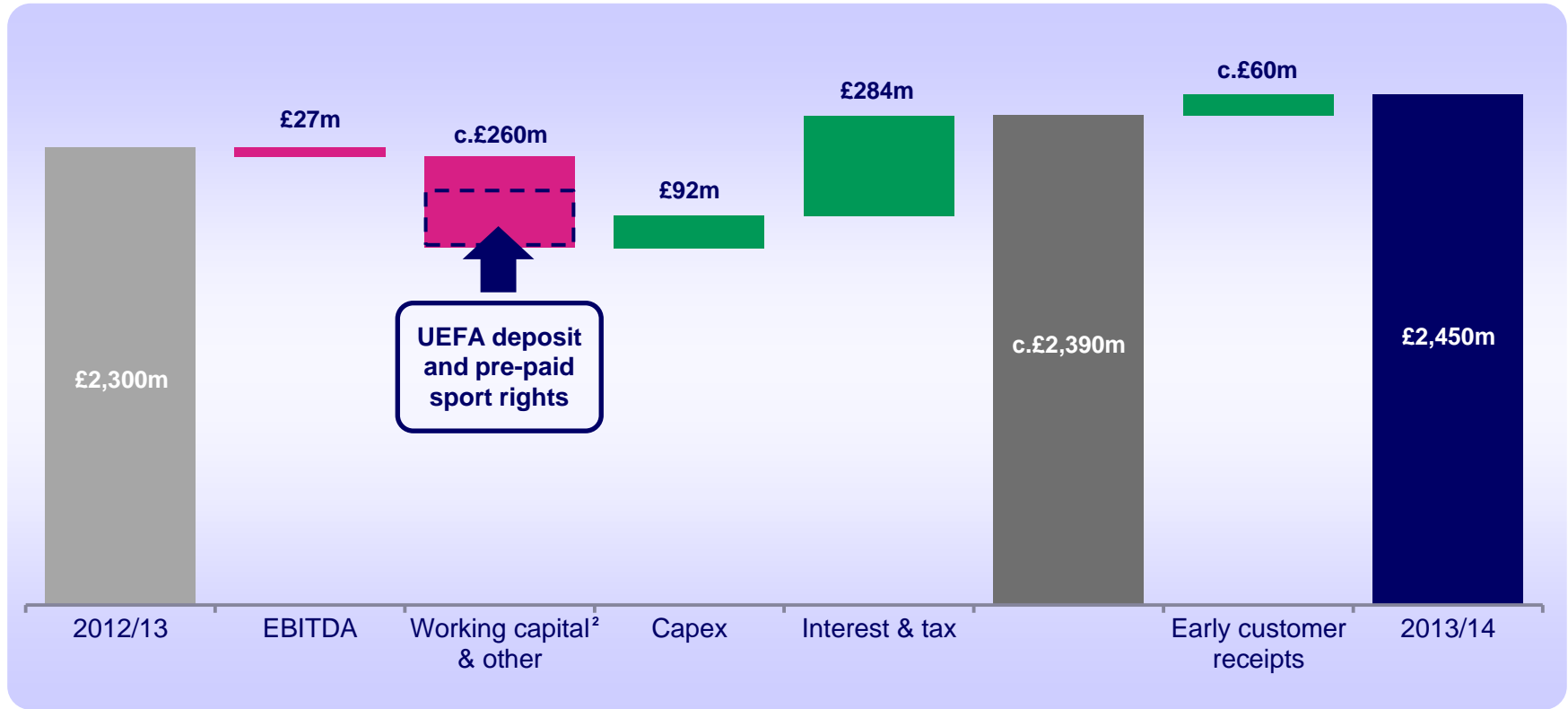
¹ opex is before specific items and depreciation & amortisation

² underlying costs excluding transit

EBITDA¹



Normalised free cash flow¹

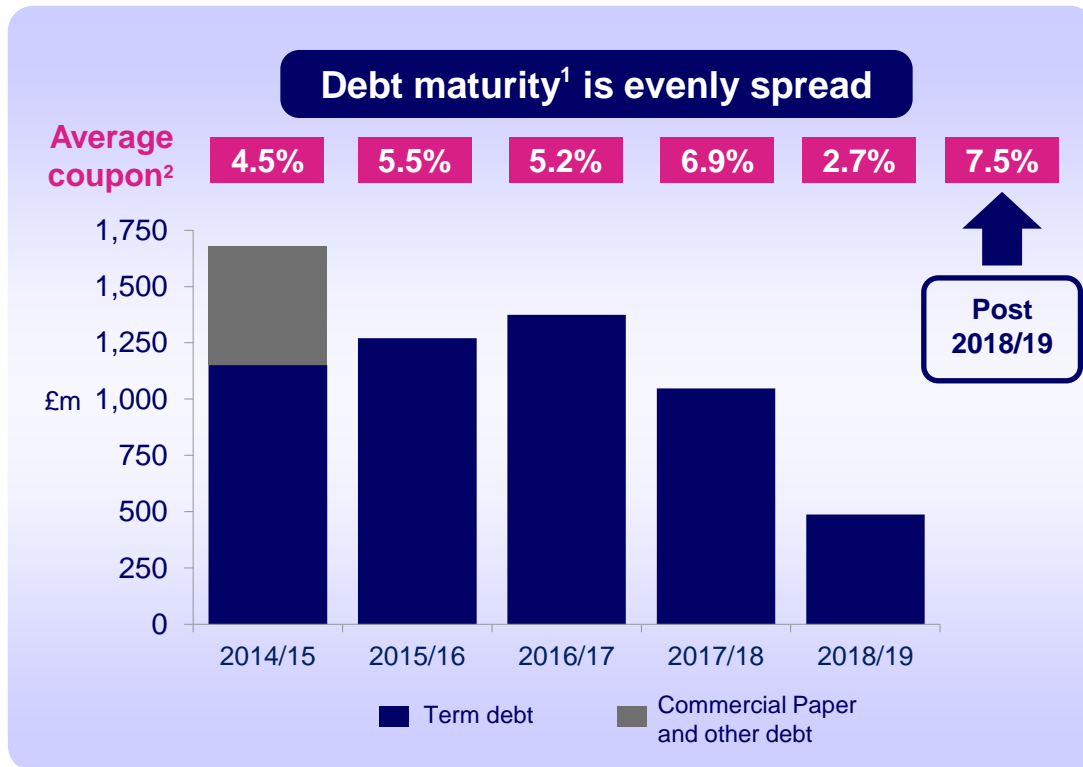


¹ before specific items, purchases of telecommunications licences, pension deficit payments & cash tax benefit of pension deficit payments

² excluding early customer receipts

Debt and liquidity

- ▶ Continue to target BBB+/Baa1 credit rating
- ▶ £1.7bn debt repayable in 2014/15
- ▶ Cash and investments of £2.5bn
- ▶ Available facilities of £1.5bn
- ▶ Strong liquidity position



¹ carrying value at 31 March 2014, assuming no renewal or new facilities. Carrying value reflects final principal repayments at hedged rates
² weighted average coupon of debt maturing in year (including swap rates), based on carrying value of debt at hedged rates at 31 March 2014

Regulation

2013/14

- ▶ Regulation impacted revenue and EBITDA by £150m-£200m in 2013/14
 - WLR, LLU and ISDN30 charge controls
 - Leased Lines Charge Control
 - Narrowband Market Review reduced fixed termination revenue in BT Wholesale from Q4

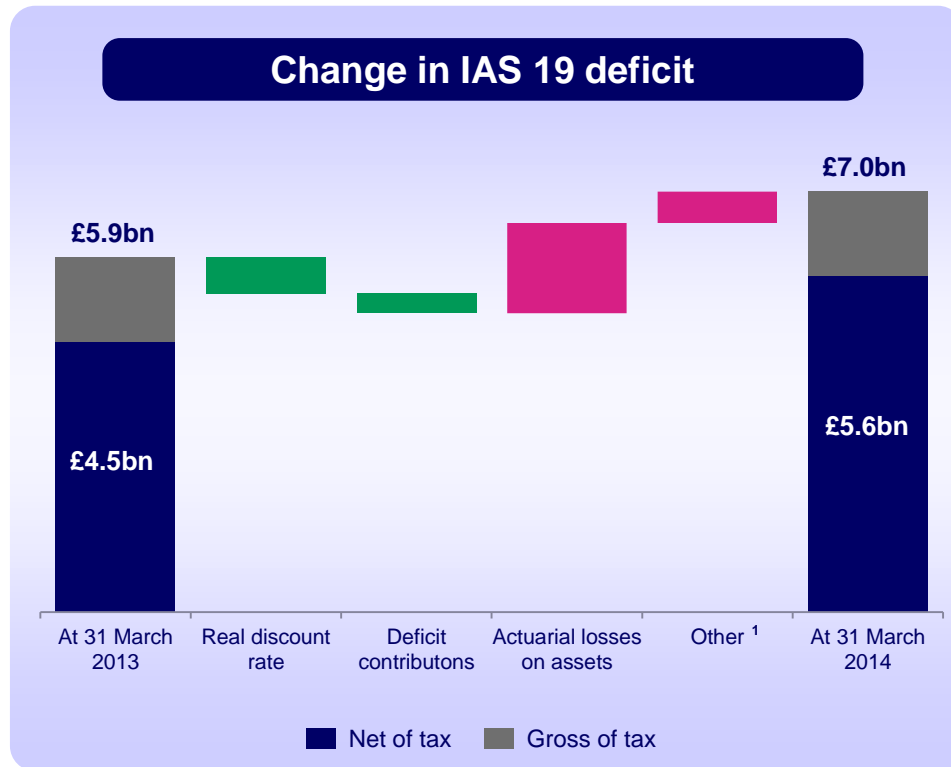
2014/15

- ▶ Fixed Access Market Review
 - final statement due shortly
- ▶ TalkTalk fibre margin squeeze complaint
 - BT fully compliant with all regulation and competition law
- ▶ Ladder pricing
 - awaiting decision from Supreme Court
- ▶ Historic Ethernet pricing
 - awaiting decision from CAT on appeals against Ofcom's Dec 2012 determinations

Pension

- ▶ IAS 19 deficit £5.6bn net of tax (Q4 2012/13: £4.5bn)
 - increase in year reflects investment returns below IAS 19 assumption
 - partly offset by £325m deficit payment in Q4 and higher real discount rate

- ▶ BT's median estimate shows surplus of c.£0.5bn



Outlook

2014/15

2015/16

Underlying revenue ex transit

▶ Broadly level with 2013/14

▶ Growth

EBITDA¹

▶ £6.2bn-£6.3bn

▶ Growth

Normalised FCF

▶ Above £2.6bn

▶ Growth

Dividends

▶ Up 10-15%

▶ Up 10-15%

 New outlook

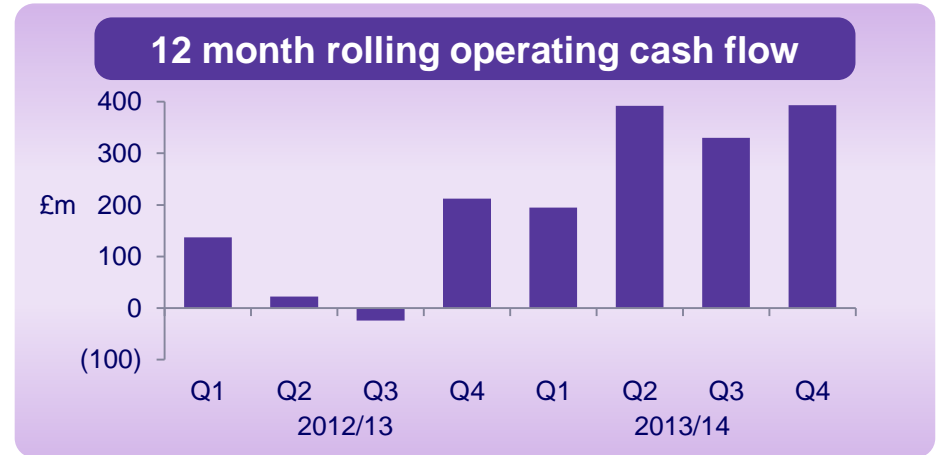
BT Group plc

Gavin Patterson, Chief Executive

Global Services – another good quarter

	Q4 2013/14	Change	FY 2013/14	Change
Revenue	£1,857m	(4)%	£7,041m	(2)%
- underlying ex transit		flat		(1)%
EBITDA	£286m	8%	£932m	12%

- ▶ Q4 underlying revenue ex transit flat
 - double-digit increase in high-growth regions
 - lower UK public sector revenue
- ▶ Q4 EBITDA up 8%
 - reflects cost transformation programmes
- ▶ FY operating cash flow £389m, up £177m
 - c.£60m early customer receipts
- ▶ Good Q4 order intake of £2.2bn, up 13%
 - FY up 9%



Business – steady performance

	Q4 2013/14	Change	FY 2013/14	Change
Revenue	£895m	(3)%	£3,509m	flat
- underlying ex transit		(2)%		(1)%
EBITDA	£287m	1%	£1,098m	5%

- ▶ Q4 underlying revenue ex transit down 2%
 - voice down 2% partly reflecting migration to VoIP
 - IT services down 7% reflecting strong PY performance
- ▶ Q4 EBITDA up 1%
 - reflects cost transformation programmes
- ▶ Q4 order intake up 12%
 - FY up 3%



Consumer – continued strong performance

	Q4 2013/14	Change	FY 2013/14	Change
Revenue	£1,068m	9%	£4,019m	4%
EBITDA	£269m	5%	£833m	(14)%

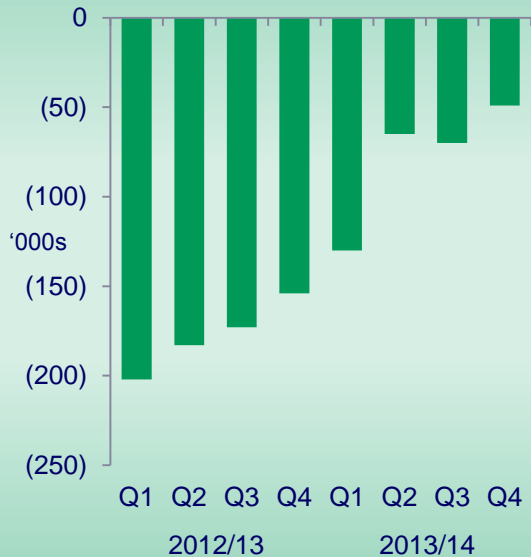
- ▶ Q4 revenue up 9%
 - broadband and TV up 24%
 - improved trend in calls and lines, up 1%
- ▶ Q4 costs up 10%
 - c.£130m BT Sport investment and higher revenue-related costs
 - partly offset by cost transformation activities
- ▶ Q4 EBITDA up 5%
 - reflects better revenue performance

Consumer YoY revenue growth



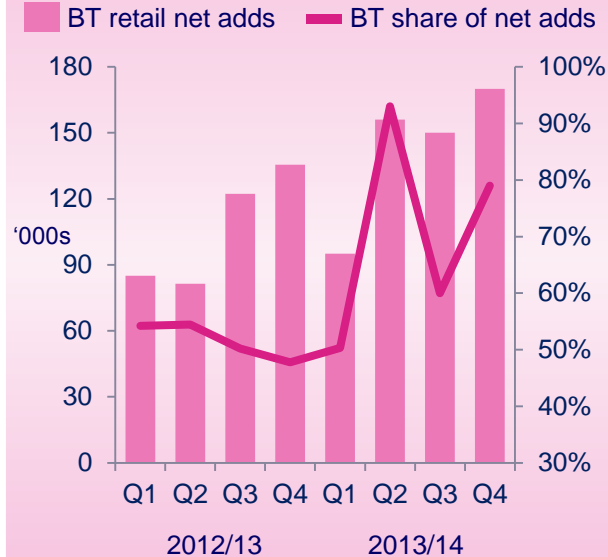
Consumer – continued strong performance

Total consumer line loss



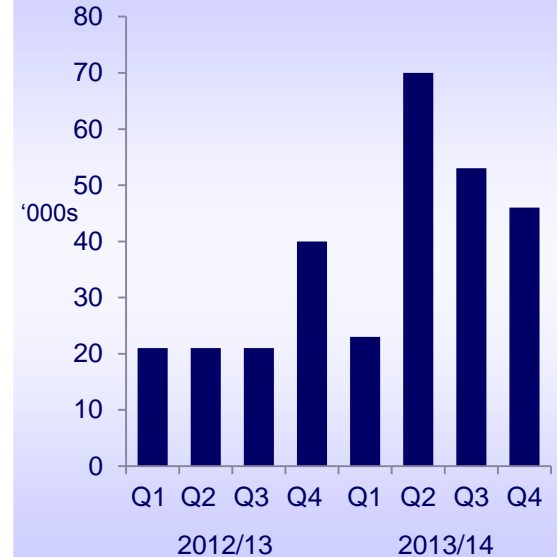
- ▶ Q4 consumer line loss of 49,000, best for >5 years

Broadband net adds¹



- ▶ 170,000 retail broadband net adds in Q4, a 79% market share

TV net additions



- ▶ Q4 TV net adds of 46,000, up 15%

Wholesale – ongoing challenges

	Q4 2013/14	Change	FY 2013/14	Change
Revenue	£571m	(15)%	£2,422m	(7)%
- underlying ex transit		(9)%		(3)%
EBITDA	£152m	(6)%	£614m	(1)%

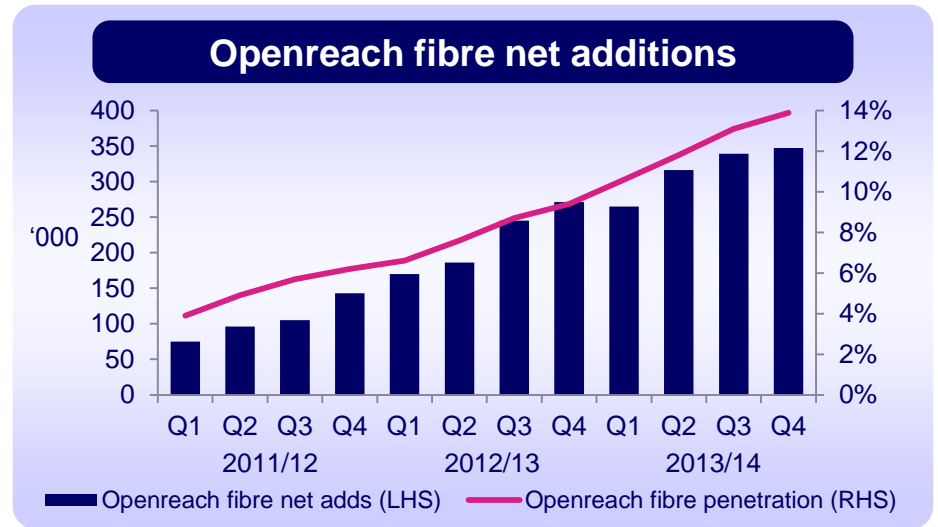
- ▶ Q4 underlying revenue ex transit down 9%
 - calls and lines down 24%, partly due to Narrowband Market Review
 - managed solutions down 6%
 - 38% growth in IP services
- ▶ Q4 operating costs ex transit down 11%
 - lower cost of sales and selling & admin
- ▶ Q4 order intake £525m
 - includes long-term contract with O2 UK



Openreach – strong fibre growth offset by regulation

	Q4 2013/14	Change	FY 2013/14	Change
Revenue	£1,271m	flat	£5,061m	(1)%
EBITDA	£694m	2%	£2,601m	(2)%

- ▶ Q4 revenue flat
 - c.£70m impact from regulation
 - fibre revenue up 63%
 - Ethernet revenue up 3%
- ▶ Q4 operating costs down 3%
 - efficiencies and one-off benefits offset pay inflation and additional work after adverse weather
- ▶ Physical line base up 6,000 in Q4
 - FY up 83,000
- ▶ 347,000 net fibre connections in Q4, up 28%



Our strategy for the last four years

- ▶ Driving broadband-based consumer services
- ▶ Being the 'Brand for Business' for UK SMEs
- ▶ BT Global Services – a global leader
- ▶ The wholesaler of choice
- ▶ The best network provider
- ▶ A responsible and sustainable business leader

**Customer
service delivery**

**Cost
transformation**

**Investing for
the future**

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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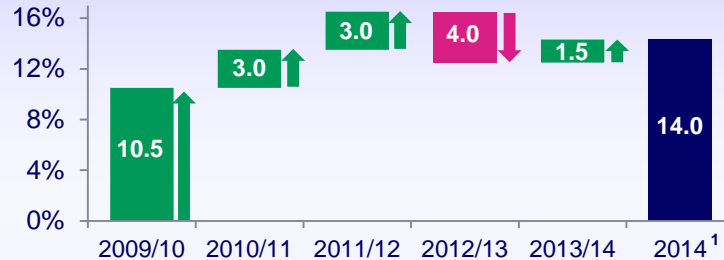
Our culture

A healthy organisation

Deliver superior customer service

Achieved so far

Annual improvement in 'Right First Time'



- ▶ Extra engineers and contact centre agents
- ▶ Diagnostic capabilities in hubs
- ▶ Complaints trending down
- ▶ Consumer customer advocacy up 6% points

Future plans

- ▶ Reduce faults
 - invest in training
 - targeting high fault rate cabinets
 - improving network diagnostics
- ▶ Delivering on the day
 - reducing missed appointments/failed call-backs
 - dedicated case managers for complex issues
- ▶ Improved culture and operating model
 - root and branch process re-design
 - incentivisation and people development

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Invest for growth – fibre

Achieved so far

- ▶ UK average broadband speed 2nd in G8
 - UK average speed up c.50% YoY
 - widest fibre coverage of the 5 largest W. European countries
- ▶ >19m premises passed
 - two-thirds of UK premises
 - nearing end of main commercial build
- ▶ >2.7m Openreach premises now connected
 - >2.1m retail fibre customers

Future plans

- ▶ We'll help take UK coverage to at least 90% of premises
 - will bid for funds to go further
- ▶ Rolling out in all 44 BDUK areas
 - >630,000 premises passed so far
- ▶ Increasing speed over coming years
 - making FTTP-on-Demand available across FTTC footprint
 - vectoring trial undertaken, potential for >100Mbps over FTTC
 - G.fast has potential to deliver up to 1Gbps

Invest for growth – TV and content

BT TV - achieved so far

- ▶ 1m BT TV customers
- ▶ New smaller and faster YouView box launched
- ▶ New channels added
 - now >140 channels available including new paid-for channels e.g. Discovery, Disney, Sky Movies
 - growth in HD with 27 channels on YouView
 - launched buy-to-keep movies



BT TV - future plans

- ▶ More third-party content and channel distribution deals
- ▶ New YouView shareholder agreement gives more control over roadmap
- ▶ New capabilities such as
 - multi-room
 - entry level YouView box
 - connected red button
- ▶ First generation TV service ending in Q1

Syfy HD

NATIONAL GEOGRAPHIC CHANNEL HD

Discovery HD

ANIMAL PLANET HD

FOX HD

BRITISH EURO SPORT HD

ci HD

MTV HD

BRITISH EURO SPORT 2 HD

NAT GEO WILD HD




© HD

HISTORY HD

TLC HD

Invest for growth – TV and content

BT Sport - achieved so far

- ▶ c.3m direct customers
 - c.5m including wholesale deals
- ▶ Proposition strengthened further in quarter
 -  – January: World Rally Championship coverage started
 -  – March: MotoGP coverage started
 -  – German Bundesliga extended to 2017
- ▶ BT Sport app available on Chromecast
 - allows app-only customers to watch BT Sport easily on their TV

BT Sport - future plans

- ▶ BT Sport to remain free for BT broadband customers for 2014/15 season
- ▶ New content to be added
 - European Rugby Champions Cup from this autumn
 - exclusive rights to UEFA competitions from summer 2015



Invest for growth – mobility and future voice

- ▶ Our competitive advantage is the ability to create single converged offerings
 - combining fibre and 4G
 - distinct from ‘quad play’ marketing of linked products

For businesses

- ▶ Meets customer demand for a complete, converged fixed and mobile solution
- ▶ Single platform available wherever customers are
- ▶ Leverages BT’s strong brand and connectivity among business customers

For consumers

- ▶ Meets customer needs for fast and reliable data and voice services wherever they are
- ▶ Compelling propositions at competitive prices
- ▶ Leverages brand and existing channels to market

Invest for growth – mobility and future voice

Inside-out network

=

MVNO for
ubiquitous
coverage

+

>5.4m BT Wi-fi
hotspots for
data needs

+

4G core and
small cell
development

+

4G spectrum
with a combined
4G/wi-fi router

- ▶ High capacity, high performance, low cost network
- ▶ Designed for heavy data usage indoors and 'always best connected' customer experience
- ▶ Leverages our fibre and wi-fi networks, and our 4G spectrum

Will launch with MVNO
proposition

Business:
converged offering
in coming weeks

Consumer:
launch later
in 2014/15

2 year journey to full
inside-out network

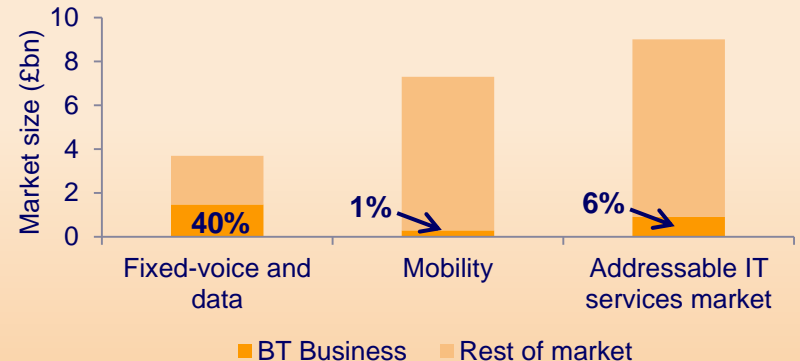
Invest for growth – UK business markets

Achieved so far

- ▶ New BT Business organisation created
 - new simplified structure
 - synergies from combining IT services units
- ▶ Improved sector-based IT services propositions
- ▶ Integrated service offerings
- ▶ BT MeetMe with Dolby Voice launched
 - exclusive; high quality audio
- ▶ Plusnet for Business re-launched
 - extending market reach

Future plans

- ▶ Growing share of wallet with existing customers
- ▶ Developing new IP-based voice and data products
- ▶ Cross-selling from leading position in fixed



Invest for growth – leading global companies

Achieved so far

- ▶ Delivered double-digit revenue increase in high-growth regions
 - began hiring >400 new people; improving infrastructure
- ▶ Rationalised networks
- ▶ BT Security and BT Conferencing moved into BT Global Services from April 2014

Future plans

- ▶ Increasing share of wallet
 - extending industry focus, expanding solutions
- ▶ Supporting multinational customers
 - investing in global account management and network
- ▶ Focusing on gross margin and cash

A leader in Gartner's Magic Quadrant for Global Network Service Providers

Magic Quadrant for Global Network Service Providers – March 2014



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In summary

Deliver superior customer service

- ▶ Investing more to achieve a step-change

Transform our costs

- ▶ Further transformation to come, driving out cost of failure

Invest for growth

- ▶ Rich opportunities to deliver sustainable, profitable revenue growth
- ▶ Increasing cash over the long term

Strong platform to achieve future outlook

BT Group plc

Q&A

BT Group plc

Appendix

Income statement

£m	Q4 2013/14	Change	Key points
Revenue¹	4,748	(1)%	<ul style="list-style-type: none"> ▶ £70m negative FX impact ▶ transit down £56m
- underlying ex transit		1.2%	<ul style="list-style-type: none"> ▶ stronger performances from BT Global Services and BT Consumer
EBITDA¹	1,705	2%	<ul style="list-style-type: none"> ▶ cost transformation offset by c.£130m BT Sport investment
Operating profit¹	1,054	8%	<ul style="list-style-type: none"> ▶ depreciation down 6%
Profit before tax¹	901	9%	
EPS¹	9.0p	10%	
Specific items	(144)	64%	<ul style="list-style-type: none"> ▶ includes restructuring charges of £94m, net interest expense on pensions of £59m

¹ before specific items

Free cash flow

£m	Q4 2013/14	Change	Key points
EBITDA¹	1,705	41	
Capex	(544)	28	▶ efficiencies in capital programme
Interest	(110)	30	▶ lower debt, timing of coupons
Tax ²	(150)	(46)	▶ timing of tax payments
Working capital & other	445	(8)	
Normalised FCF	1,346	45	
Cash tax benefit of pension deficit payments	19	(60)	▶ prior year benefited from £2bn pension payment in March 2012
Telecoms licences	-	202	▶ prior year purchase of 4G mobile spectrum
Specific items	(92)	55	▶ restructuring costs
Reported FCF	1,273	242	

¹ before specific items

² before cash tax benefit of pension deficit payments