



BT Group plc

Q2 2014/15 results

30 October 2014



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BT Group plc

Tony Chanmugam, Group Finance Director

Q2 overview

- ▶ Solid set of results
- ▶ Good progress on cost transformation
- ▶ Investments are delivering
- ▶ Outlook remains unchanged

Q2 2014/15 group results

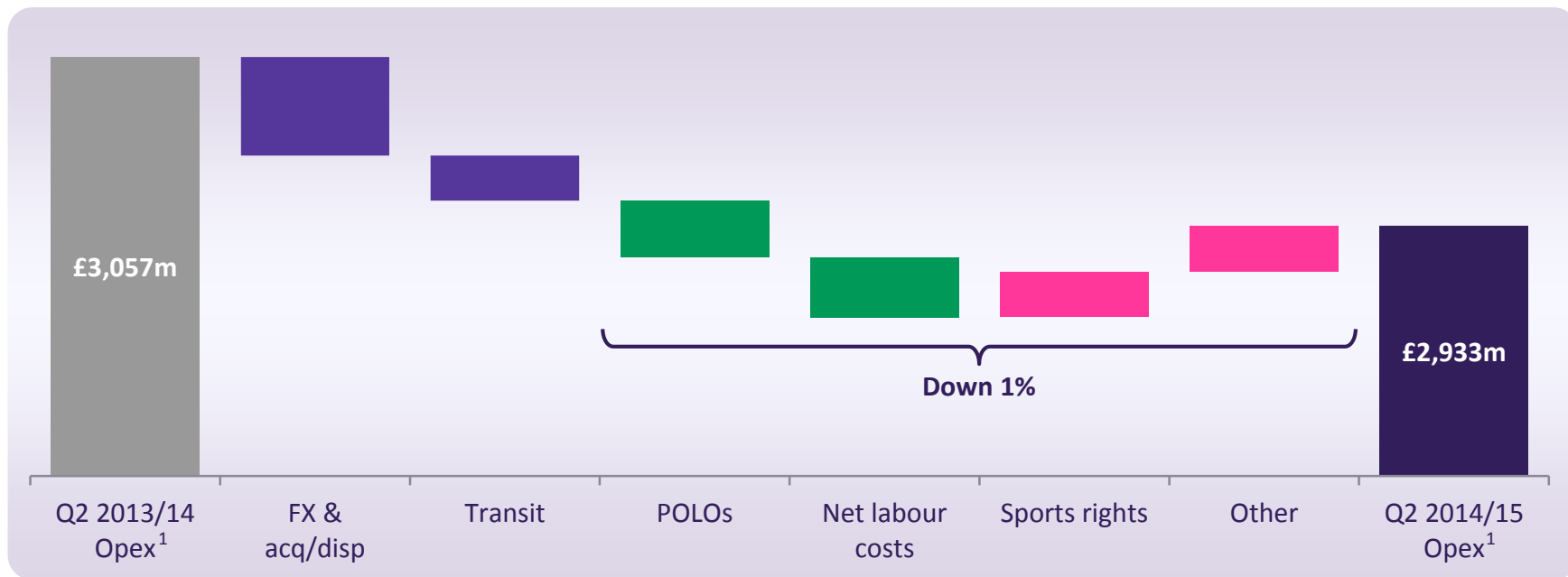
		YoY change	
Revenue¹	£4,383m	(2)%	▼
- underlying ² ex transit		0.2%	▲
EBITDA¹	£1,450m	1%	▲
EPS¹	6.9p	15%	▲
DPS	3.9p	15%	▲
Normalised free cash flow³	£533m	down £77m	▼
Net debt	£7,063m	down £1,011m	▼

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 costs¹



Down 4%; underlying ex transit down 1%

¹ before specific items and depreciation and amortisation

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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

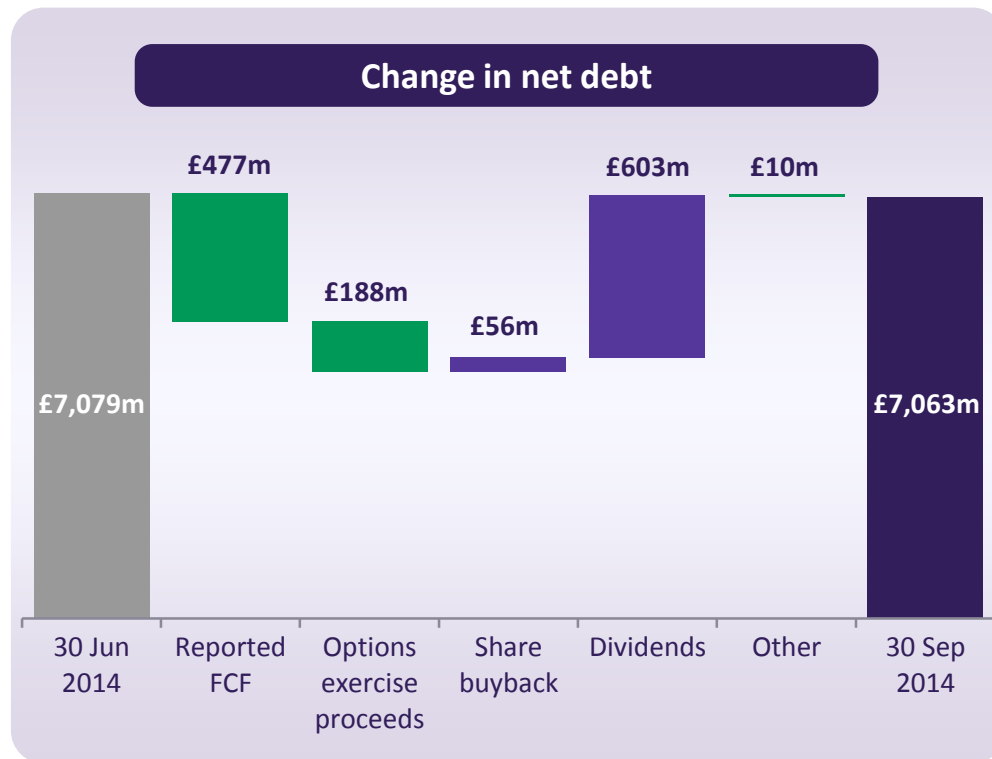


▶ Travel and subsistence

- 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



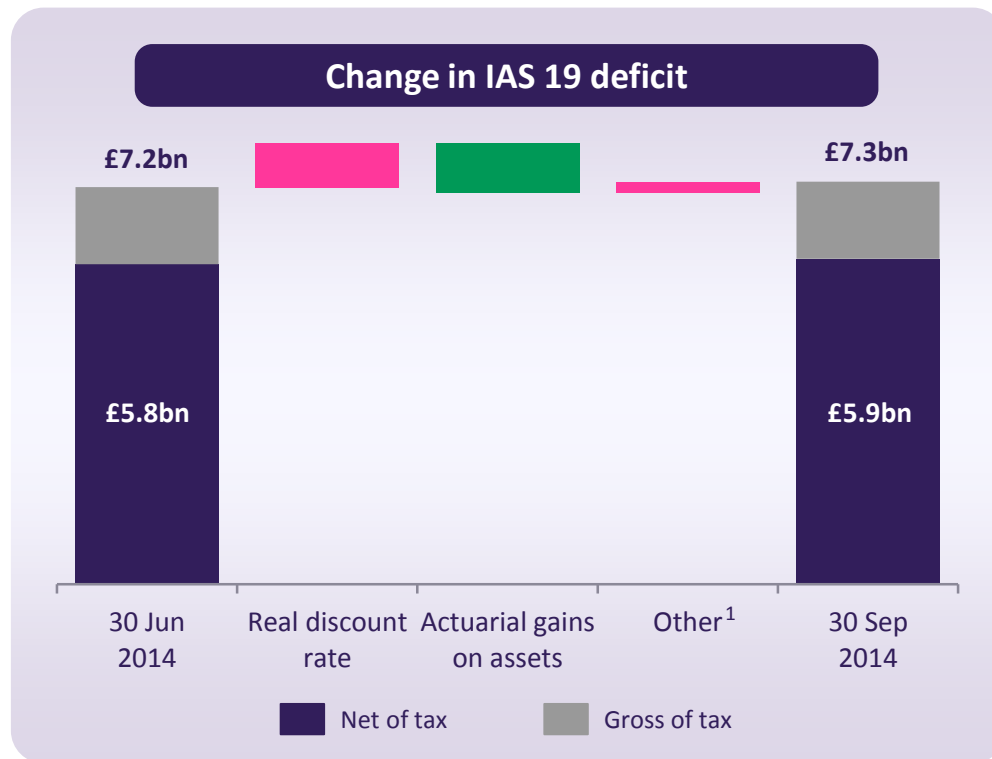
Other financial information

► 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

Regulation

▶ 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

	2014/15	2015/16
Underlying revenue¹ ex transit	▶ Broadly level with 2013/14	▶ Growth
EBITDA²	▶ £6.2bn - £6.3bn	▶ Growth
Normalised FCF³	▶ Above £2.6bn	▶ Growth

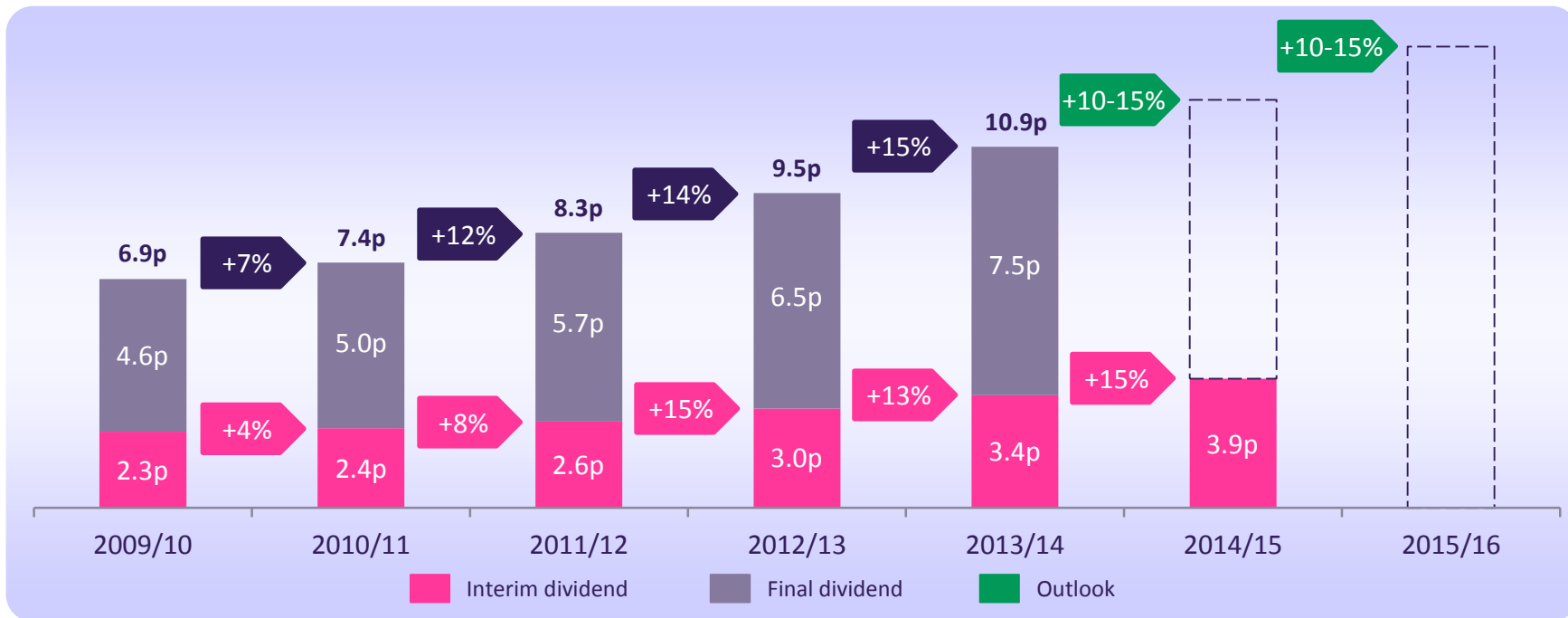
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Shareholder returns

Dividend per share





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Gavin Patterson, Chief Executive

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



Customer First ambition

- ▶ Five themes to deliver a step change in service



Acting on insight



Keeping customers connected



Creating great systems and tools



Working end-to-end



Supporting our people



Progress in Q2

- ▶ Further improvement in one-contact resolution
 - >7% better than Q4
- ▶ Average speed of delivery improved
 - >5% better than Q4
- ▶ Faster repair times in Business and Openreach
- ▶ 'Right First Time' measure up

Reducing the cost of failure

Invest for growth

Fibre

>21m premises passed

- c.570,000 passed in BDUK areas in Q2

G.FAST

- successful field trials



TV and content

BT Sport

- customer base continues to grow
- Premier League audience up c.45%
- BT Sport Extra red button launched

BT TV

- ‘Download to own’ going well
- **NETFLIX** coming soon



Mobility and future voice

Business

- good early demand for BT One Phone
- new 4G mobile plans launched

Consumer

- working towards mobile launch this FY



UK business markets

New products

- IP voice services
 - BT Cloud Voice
 - Wholesale Hosted Centrex
- new broadband portfolio including IT support & Office 365
- streamlined IT services portfolio



Leading global companies

New products

- BT Assure Threat Defence
- BT Compute Storage

Expanding network

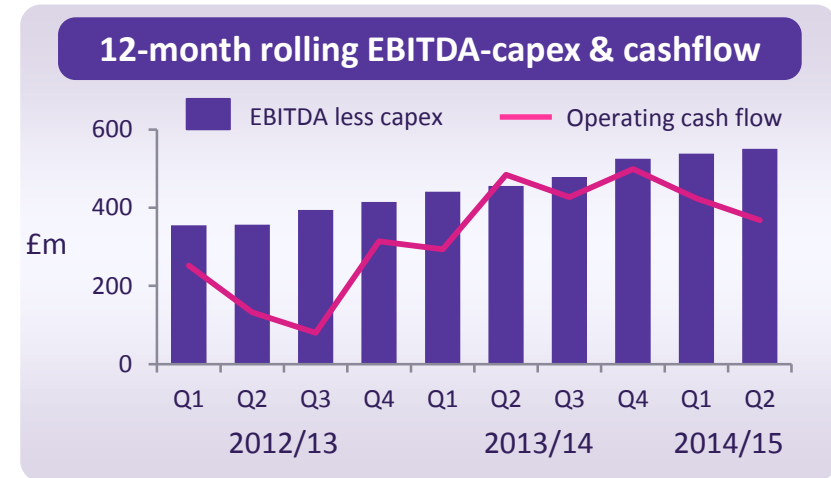
- 3 new cloud-enabled data centres in Q2
- taking Ethernet Connect to 15 new countries



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

	Q2 2014/15	YoY change
Revenue	£1,649m	(5)%
- u/l ex transit		(1)%
EBITDA	£226m	2%



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%

	Q2 2014/15	YoY change
Revenue	£789m	(1)%
- u/l ex transit		(1)%
EBITDA	£258m	4%

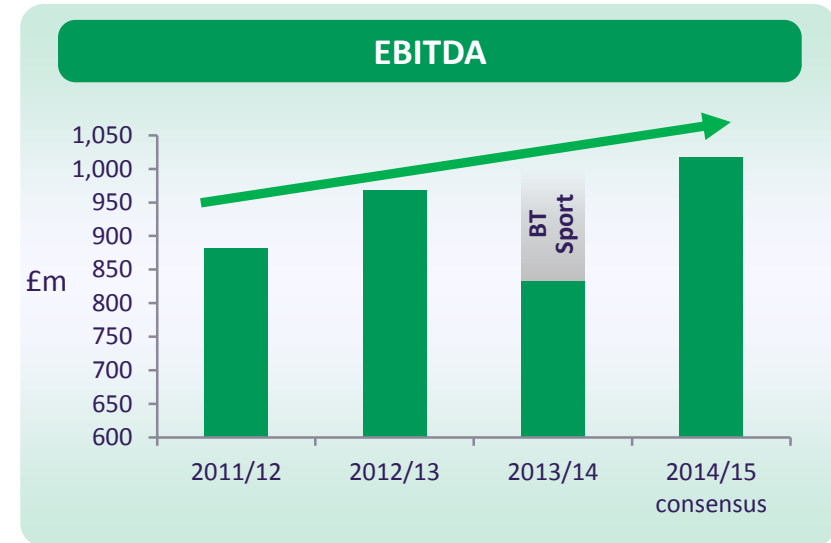
12-month rolling operating cash flow



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% share¹ despite strong promotional activity in the market
- ▶ Consumer line loss of 85,000
- ▶ 38,000 TV customers added

	Q2 2014/15	YoY change
Revenue	£1,056m	7%
EBITDA	£225m	42%

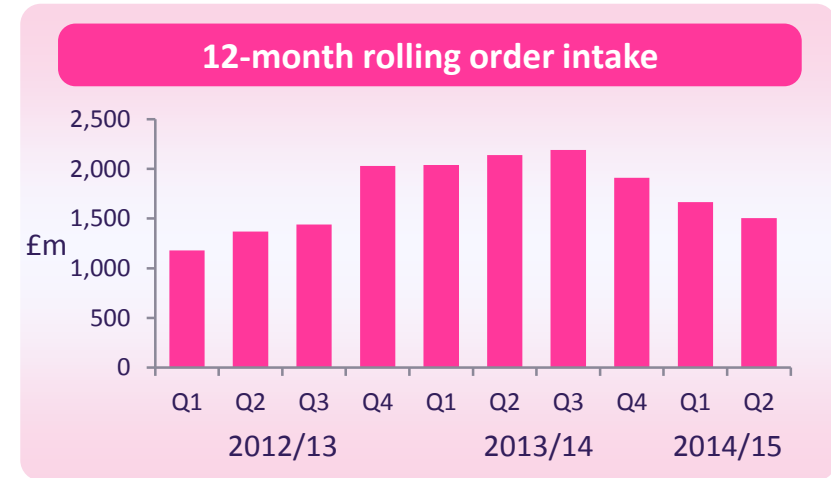


¹ share of growth in DSL and fibre broadband market, excluding cable

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

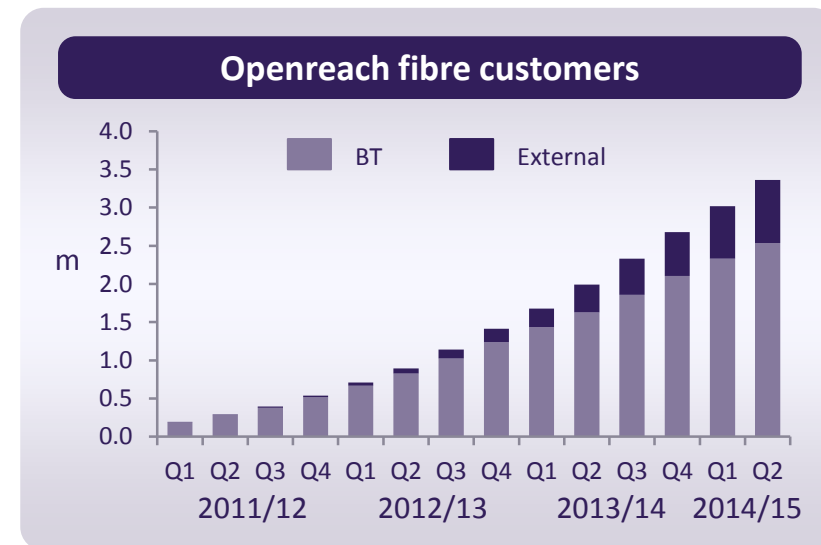
	Q2 2014/15	YoY change
Revenue	£529m	(15)%
- u/l ex transit		(11)%
EBITDA	£125m	(21)%



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

	Q2 2014/15	YoY change
Revenue	£1,245m	(2)%
EBITDA	£627m	(2)%



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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Q&A



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Appendix

Income statement

£m	Q2 2014/15	YoY change	Key points
Revenue¹	4,383	(2)%	▶ £77m negative impact from FX ▶ £36m reduction in transit revenue
- underlying ex transit		0.2%	▶ higher broadband and TV revenue in Consumer offset by reductions in Wholesale and Openreach
EBITDA¹	1,450	1%	▶ up 2% excluding FX
Operating profit¹	832	10%	▶ depreciation and amortisation down 9%
Profit before tax¹	690	13%	
EPS¹	6.9p	15%	
Specific items²	(107)	n/m	▶ includes restructuring charges of £60m and net interest expense on pensions of £73m

¹ before specific items

² net charge after tax

n/m = not meaningful

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Free cash flow

£m	Q2 2014/15	YoY change	Key points
EBITDA¹	1,450	16	
Capex	(521)	113	▶ reflects phasing of expenditure in year
Interest	(87)	(16)	
Tax ²	(136)	(45)	▶ reflects timing of tax payments in prior year
Working capital & other	(173)	(145)	▶ VAT payments lower last year
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)	

¹ before specific items

² before cash tax benefit of pension deficit payments