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Executives:
Allison Kirkby - Chief Executive Officer
Patricia Cobian - Chief Financial Officer

Operator: Good day, ladies and gentlemen, and welcome to the BT Group Conference Call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session through the phone lines and instructions will follow at that time. I would like to remind all participants that this call is being recorded.

I will now hand over to the BT Group management to open the call. Please go ahead.

Allison Kirkby: Good morning, everyone, and thank you for joining us at such short notice. This is an unusual and indeed unprecedented day. And so, it did feel right to update you all live and also to give you the opportunity to ask some questions at the end. We will make it quite fast this morning, 25 minutes, so that we aim to wrap up just after the market opens.

So as you have read, we have acquired TalkTalk's retail and wholesale business out of administration this morning. This administration followed a prolonged but ultimately unsuccessful sale process for the TalkTalk directors. As a result of this, we recognised the risk to the country and especially vulnerable customers and key public services should the TalkTalk board have had to decide to enter liquidation. So BT has stepped in.

This is the best outcome for TalkTalk residential, business, and wholesale customers who have now the assurance of continued connectivity. And we've appointed Clive Selley, whom you all know very well, as our integration planning and stabilisation advisor until we have regulatory approval. Martijn Blanken succeeds him a little earlier than planned as CEO of BT International.

For us, this will be a value-accretive transaction because we have all the existing systems and processes to which TalkTalk customers can be transferred. And of course, ultimately, after the regulatory review process, TalkTalk's customers will benefit from the wider range of our products, including access to the UK's best

broadband and mobile networks and the full range of market-leading products and services that BT will be able to offer those customers.

Let me now pass to Patricia, who has had an interesting first few weeks as our group CFO, to cover the financial impacts. Over to you, Patricia.

Patricia Cobian: Thank you, Allison. It's very good to be here. Today we have bought two entities, TalkTalk Telecommunications Limited and PlatformX Communications Limited out of the administration of TalkTalk Group. This is on a debt-free basis.

For FY27, we will report the acquired business as a separate reportable segment. Our estimate of the total cash impact in FY27 is c£400 million, comprising both consideration and also other cash impacts.

Those other cash impacts include a range of items, including a trading loss for the balance of this fiscal year of around £60 million, non-receipt of around £100 million otherwise due to Openreach, transaction and administration costs, and finally, working capital impacts.

Of the total cash cost, the consideration and transaction costs will be treated as specific, with the balance in the TalkTalk segment NFCF. As we integrate the business, we'll progressively realise savings and expect the transaction to be value accretive, as Allison has mentioned.

We will align TalkTalk's financial reporting to BT's accounting policies and communicate the expected impacts on revenue, EBITDA, and CapEx later this fiscal year.

And as noted in the release, we are reiterating all our financial guidance, excluding the impact of this transaction. This includes the inflection in normalised free cash flow to c£2 billion in FY27 and c£3 billion by the end of the decade. Our credit rating target and dividend policy are also unchanged.

Back to you, Allison.

Allison Kirkby: Thanks, Patricia. So in summary, this transaction gives assurance for TalkTalk and PXC customers who should stay put. There's no action to take, and contracts will continue as before with much more stability and certainty than they've had in recent years. Over time, TalkTalk customers will be transitioned to our products and services, and as Patricia said, we expect this transaction to create value. So this will be immediately positive for TalkTalk customers and employees and accretive for BT shareholders over time. We expect the regulatory process to take place over the coming weeks, and you'll understand if I leave some of those questions for regulatory authorities, but I understand they have already now released a public

interest intervention notice this morning, where the Secretary of State has indicated there may be a public interest reason to intervene in the CMA's usual process. She considers two criteria may be relevant: a public health emergency consideration and the need to maintain continuity of service in telecom supply. This would be a new criterion. She's directed the CMA to report on the transaction by 19th of October, so that's two weeks from today, after which she will decide. And this process, the Secretary of State has decided to follow, reflects the critical nature of the services this industry provides.

So, I'll now hand back to the operator to open for a brief Q&A in which we'll take just a few questions to allow you to get back to work. And I think some of you are off to Bonn today for a certain Investor Day. So over to the operator for the Q&As, please.

Operator: Thank you. And as mentioned, we will now open for Q&A. And if you were dialed into the call and would like to ask a question, please signal by pressing star one to raise your hand and join the queue. And to remove your hand, press star one again.

If you're called upon to ask your question, please ensure you use your device handset and that you are not on mute. And your first question is from Akhil Dattani of JP Morgan. Please go ahead.

Akhil Dattani: Hi, good morning. Thanks for taking the questions. The first one is just on line loss and how we should think about line loss. And I wonder if you could maybe help us understand, as we look at the line loss you've been suffering over the last year, what portion of that consists of TalkTalk and as we think going forward, what we think this transaction means for your line loss trends? That's the first question.

And then the second question was on the financial implications of the transaction. Allison, you mentioned that this deal will be value accretive. I guess I'm just trying to understand, and I know it's very early days; I'm sure details aren't going to be possible just yet. But if you could maybe help us understand as we think about the moving parts going forward, how we can try and better understand, I guess, both initial impacts on the financials and then obviously over the midterm? Thanks a lot.

Allison Kirkby: Okay. Thanks, Akhil. On line losses, look, we've long said that we want all our CPs to be successful on the Openreach platform, and TalkTalk has been a large part of our line losses for some time Look, with our proposed investment into TalkTalk, as we stabilise that business, as we offer them more products and services better than TalkTalk could as a standalone business, we expect churn to reduce over time. But we do expect, likely since this business was at risk of failing over the last few weeks

and months, that there might be some volatility in the beginning; but once it's set, we expect churn to reduce, and we expect it to be less of a drag on our line losses going forward. And for now, just to be clear, we're not changing our line loss guidance for the year and we'll update you on the latest quarter on the 5th of November.

In terms of value accretion, all the numbers we mentioned in the release this morning are basically the cost of the transaction, the consideration, and taking on the immediate working capital impacts. And we will have to account for a half year's worth of ongoing losses in that business. If you look at the value accretion, it's a £1.2 billion roughly revenue, 2.5 million customers, 1.5 million of which are retail customers. It has a gross profit of about £300 million. And its OpEx is also about £300 million. You know, what we see is an opportunity to stabilise that base, reduce the churn, cross-sell, upsell, and clearly run the business. Looking at it, once we integrate it, there will definitely be SG&A synergies as well. So that's why we are convinced that it will be value accretive over time. But clearly, it's been a problematic business for a while, and we need to get hold of it first and invest into a bit as well. But that's all been factored into the number we gave you this morning for this fiscal year.

Akhil Dattani: Great. Thank you.

Operator: Your next question is from the line of Andrew Lee of Goldman Sachs. Please go ahead.

Andrew Lee: Good morning. I just wanted to follow up on Akhil's questions on line loss. Can you just talk us through or have something a little more in terms of what your plans are to stabilize those TalkTalk customers? What can you actually do? I'm guessing they'll maybe be BT customers as soon as possible, but will you have to spend money in the near term on new customer premise equipment and things like that just to ensure they're getting the best service and are less likely to churn? And then just as a follow-up question, how quickly do you think you can start to have an impact on that? Is this a FY 2027 thing, or will you not really be able to have an impact until FY 2028? Thank you.

Allison Kirkby: The approval process just kicked off this morning. The CMA report has to be submitted in two weeks. So we are expecting a process that could last for the next month or so. Only after that can we then step in and start to run the business ourselves. But as of today, Clive will be able to work alongside the TalkTalk

management team and start to understand what it would take to stabilize that customer base. And then from an integration point of view, both my consumer team and my wholesale team will be preparing, from an outside-in point of view what their views are on how we then, over time, migrate that customer base to BT's systems, to BT's products, to BT's services. But we'll be very thoughtful in how we do that so that we are addressing the out-of-contract and vulnerable customers first, and then migrating the customer base over time so that it is value accretive and we don't take one massive hit at any point in time, Andrew. But we've done integrations like this before. It's a great opportunity to cross-sell mobile into those homes, to cross-sell TV into those homes, and there will clearly be cost synergies along the way as well. But it's very early days, Andrew.

Andrew Lee: Thank you.

Operator: Your next question is from the line of Nick Lyall of Berenberg. Please go ahead.

Nick Lyall: Morning, Allison. Morning, Patricia. Just a quick one. Could you just explain firstly the effect on the numbers exactly? Because there's a £100 million impact to Openreach revenue here. Does that go straight to the Openreach numbers, even though it's a separate business, if you see what I mean- the top business being separate that still impacts the main BT business because of the Openreach revenue effect?

And secondly, on that delay. It sounds like Clive gets in quite early, but there's still a long delay before you can start doing stuff. So what's your protection here against the competition commission verdict maybe being a bit different than you expect or churn or anything that might go on in the meantime that maybe affects your view on the valuation of the company? Thanks.

Allison Kirkby: Patricia, do you want to take the first question from Nick? And then I'll take the second question.

Patricia Cobian: So I think just to be clear, the £100 million impact that we referred to earlier is receivables that were due to Openreach rather than this being an overall revenue impact on Openreach.

Allison Kirkby: Yes, correct. And then based on what the Secretary of State has issued this morning, Nick, it's only a two-week CMA process, and she could report back as quickly as a week after that. So we are expecting, based on what is now on gov.uk, to be a fairly accelerated process. And as I said, Clive is able to start working alongside the

existing TalkTalk management team to understand what are the actions they're taking to stabilize the base. And a lot of the wholesale customers, which goes through PXC, are existing customers of BT wholesale as well. So it's not as if we don't have a relationship with those customers and we'll be able to calm the situation down. For many customers, particularly the wholesale customers, this is good news because it was a very uncertain period that they were entering into because of the uncertainty around the future of TalkTalk.

Joshua Mills: Thank you.

Operator: Your next question is from the line of Joshua Mills of BNP Paribas. Your line is open.

Joshua Mills: Hi, guys. Thanks for the question. Hopefully, you can hear me. Just a quick one on how you look at the TalkTalk customers who are currently operating on altnet fibre lines. So firstly, do you have any commitments or do you have any commitments to roll over from TalkTalk to maintain that relationship and keep the customers on the altnets, rather than move them straight to the Openreach lines? That would be my first question.

And secondly, not quite sure how the CMA and the different authorities will look at this, but clearly there's one debate here about the market power you have on the consumer side. Do you expect the government to look at how this might impact the infrastructure side and the wholesale relationships and the ability of the owners to compete longer term as well? Thank you.

Allison Kirkby: Thank you. TalkTalk actually had very little business on altnet fibre lines in the end. They sold off a lot of the business over the years, but we have no intention of migrating away from the few lines that they have at this point in time. But it's very minimal; the altnets are a very minimal supplier to TalkTalk as of now. In terms of the CMA process, this is unprecedented, and you'll read the public interest notice that has been issued this morning by the Secretary of State. She is looking at it through the lens of public interest, the risk to vulnerable customers and emergency services. So it's being approached in a very different manner than a normal CMA-led process, and the CMA have to just report back in two weeks' time. In terms of consumer market power, the TalkTalk business has declined so dramatically in recent years.

They only have a 5% market share now with high churn, and it's declining. So, it takes us from a 31 to 36% market share in the consumer market, which is not dissimilar from other incumbent players in other parts of Europe. On the infra side, nothing changes; Openreach, were supplying the vast majority of access to the TalkTalk

business, and that will continue. And the wholesale market is a very competitive market that we play in, that Vodafone plays in, and other market participants play in. But clearly the Secretary of State is looking at this through a different lens because it's gone through a very, very long process to be sold, and we were the only viable option in the end; otherwise, it would have failed and gone into liquidation. I think we've time for one more question.

Operator: We'll have one more question from James Ratzer of New Street Research. Please go ahead.

James Ratzer: Yes, good morning. Thank you very much indeed. Two questions, please. So there were kind of stories in the press that there were also alternative offers in the market for TalkTalk. If one of those had gone ahead, what might the losses to Openreach have been? I mean, I think you said you're writing off £100 million here, but what would have been the alternative scenario?

And secondly, maybe one of the most valuable assets you're buying actually TalkTalk's tax losses. Can you tell me a little bit about those and whether those will be transferable over to BT, please?

Allison Kirkby: It's Patricia, for the tax loss question. In terms of the alternative offers, well, in the end, the directors concluded that the alternative offers were not viable, and that's why BT had to step in. And as I just said on the previous question, TalkTalk and PXC in particular was very reliant on Openreach for all of its access. And because a large part of those business lines are Ethernet lines, it's not easy to transition to other players. So yes, that answers your first question, James. And on the tax losses, Patricia?

Patricia Cobian: Sure. James, on the tax losses, actually, the structure of those transactions is such that these are not carried across to us. There may be some tax relief available associated to the transaction, but the TalkTalk losses are not carried across.

Allison Kirkby: Okay. Well, listen, thank you all. I know this was done at very short notice. It's an unprecedented day, but you know, a transaction that I do believe over time will absolutely be value accretive for BT and its owners and gives great relief to TalkTalk customers and employees as of today. Otherwise, the other scenario would have been very problematic for the industry and for them as well. So thank you all, and have a good day in Bonn if that's where you're heading.