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**BT Group plc**

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**Q1 2013/14 results**

**25 July 2013**

# Forward-looking statements caution

Certain statements in this presentation are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: current year outlook, including revenue trends, EBITDA and normalised free cash flow; BT Global Services' results and continued progress in its business; BT Retail EBITDA; BT Wholesale performance; our investment in BT Sport; our fibre roll-out programme; liquidity and funding; and the impact of regulation.

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**Tony Chanmugam, Group Finance Director**

# Q1 2013/14 income statement

£m	Q1 13/14	Change <sup>1</sup>	Key points
<b>Revenue</b>	<b>4,449</b>	(1%)	<ul style="list-style-type: none"> <li>▶ transit down £51m</li> <li>▶ £32m positive FX impact</li> </ul>
- underlying ex transit		(1%)	<ul style="list-style-type: none"> <li>▶ impact of regulation</li> </ul>
<b>EBITDA<sup>2</sup></b>	<b>1,440</b>	(1%)	<ul style="list-style-type: none"> <li>▶ includes BT Sport pre-launch costs</li> </ul>
<b>Operating profit<sup>2</sup></b>	<b>743</b>	2%	<ul style="list-style-type: none"> <li>▶ depreciation down 4%</li> </ul>
<b>Profit before tax<sup>2</sup></b>	<b>595</b>	5%	<ul style="list-style-type: none"> <li>▶ lower depreciation and lower interest</li> </ul>
<b>EPS<sup>2</sup></b>	<b>5.9p</b>	5%	
<b>Specific items</b>	<b>(114)</b>	n/m	<ul style="list-style-type: none"> <li>▶ includes restructuring charges of £84m and net interest expense on pensions of £59m</li> </ul>

<sup>1</sup> prior year restated

<sup>2</sup> before specific items

# Q1 2013/14 free cash flow

£m	Q1 13/14	Change <sup>1</sup>	Key points
<b>EBITDA<sup>2</sup></b>	<b>1,440</b>	(12)	
Capex	(600)	61	▶ timing of payments
Interest	(222)	(9)	
Tax <sup>3</sup>	(31)	140	▶ timing/overpayments in prior years
Working capital & other	(647)	(116)	▶ working capital phasing
<b>Normalised FCF<sup>4</sup></b>	<b>(60)</b>	64	
Cash tax benefit of pension deficit payments	20	(142)	▶ prior year benefited from £2bn pension payment in March 2012
Specific items	(134)	(101)	▶ includes restructuring charges of £106m
<b>Reported FCF</b>	<b>(174)</b>	(179)	
<b>Net debt</b>	<b>8,058</b>	(1,084)	

<sup>1</sup> prior year restated

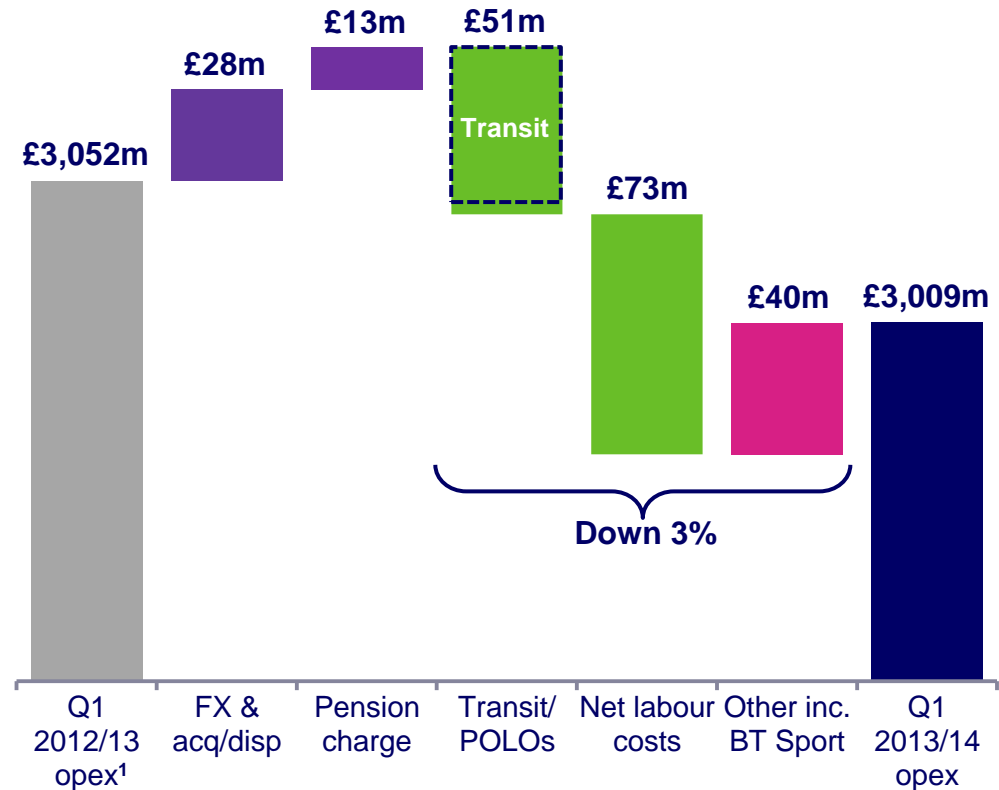
<sup>2</sup> before specific items

<sup>3</sup> before cash tax benefit of pension deficit payments

<sup>4</sup> before specific items, purchases of telecommunications licences, pension deficit payments & cash tax benefit of pension deficit payments

# Q1 2013/14 cost transformation

- ▶ Underlying operating costs ex transit down 1%
- ▶ Cost transformation activities partly offset by
  - c.£40m BT Sport pre-launch costs
  - £13m increase in pension operating charge



**£43m opex reduction in Q1**

**£84m underlying reduction ex pension charge**

<sup>1</sup> restated

Opex = operating expenditure before specific items and depreciation & amortisation

# Regulation

- ▶ LLU & WLR charge control consultation
  - additional costs still to be included
- ▶ Ofcom confirmed no regulation of fibre rental price
- ▶ Wholesale Broadband Access charge control consultation
  - larger de-regulated area

# Q1 2013/14 other financial information

## ▶ Pension

- IAS 19 deficit £4.0bn net of tax (Q4 2012/13: £4.5bn)
- lower deficit reflects higher discount rate
  - real discount rate 1.26% (Q4 2012/13: 0.87%)

## ▶ Share buyback

- 25m shares acquired for £75m



# Outlook 2013/14

- ▶ Group outlook re-iterated

- ▶ In Q2

- investment in BT Sport to impact BT Retail EBITDA by c.£100m
  - includes programme content costs
- smaller benefit in BT Global Services from contract milestones compared with prior year
  - larger benefit in Q3
- year on year benefit from prior year ladder pricing charge in BT Wholesale

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**Ian Livingston, Chief Executive**

# Q1 2013/14 overview

- ▶ Solid numbers, slightly ahead of expectations
- ▶ Q1 positions us well for the full year
- ▶ Early days, but very pleased with strong start in BT Sport
- ▶ Making progress but more to do

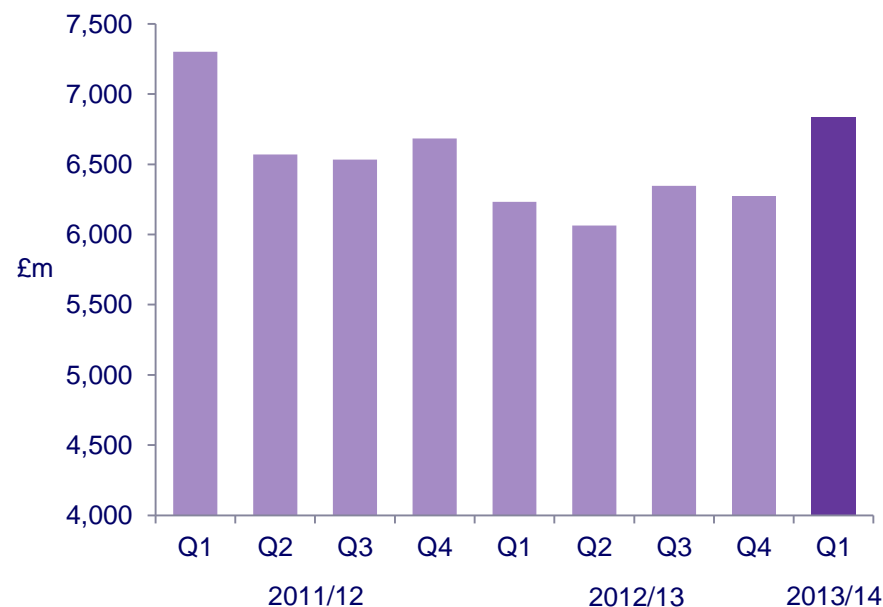
# Q1 2013/14 line of business overview

## Global Services

	Q1 2013/14	Change <sup>1</sup>
Revenue	£1,696m	(2%)
- underlying revenue ex transit		(3%)
EBITDA	£182m	6%

- ▶ Underlying revenue ex transit down 3%
- ▶ Order intake £1.7bn, up 49%
  - large renewal with Credit Suisse
- ▶ Underlying operating costs ex transit down 4%
- ▶ Underlying EBITDA up 1%
- ▶ Operating profit more than doubled
- ▶ Usual seasonal cash outflow
  - EBITDA less capex up £28m

## 12 month rolling order intake



# Q1 2013/14 line of business overview

## Retail

	Q1 2013/14	Change <sup>1</sup>
Revenue	£1,797m	flat
EBITDA	£496m	1%

### Financial

- ▶ Consumer revenue down 1%
  - calls & lines down 5%
  - broadband & TV up 9%
- ▶ Business revenue up 1%
  - IT services up 9%
  - Plusnet Business launched
- ▶ Growth in Enterprises & Ireland
- ▶ Operating costs flat
  - impact of BT Sport pre-launch costs
- ▶ Underlying EBITDA flat

### Operational

- ▶ Consumer line loss lowest for 5 years
- ▶ 50% market share<sup>2</sup> of broadband net adds
  - net adds up 12%
- ▶ Retail fibre
  - 197,000 net adds, up c.30%
  - now c.1.5m customers
- ▶ 23,000 BT TV net adds
  - impacted by ceasing Sky Sports on DTT



Some of our matches in 1<sup>st</sup> third of FAPL season

Now >500,000 homes



First picks left

BT: 13

Sky: 12



New four year FA Cup contract

And much more football



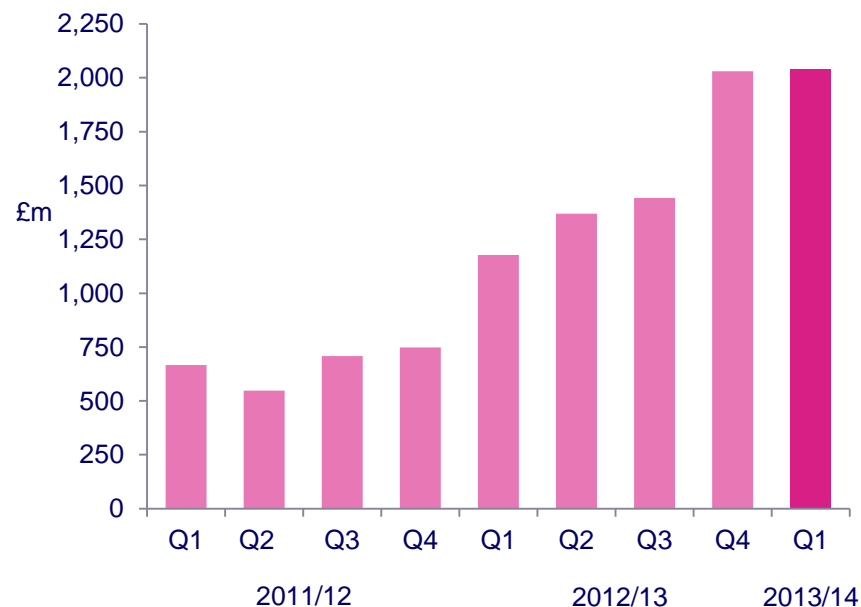
# Q1 2013/14 line of business overview

## Wholesale

	Q1 2013/14	Change <sup>1</sup>
Revenue	£638m	(6%)
- underlying revenue ex transit		flat
EBITDA	£157m	(4%)

- ▶ Excluding ladder pricing
  - underlying revenue ex transit up 2%
  - EBITDA up 3%
- ▶ Operating costs ex transit up 1%
  - higher cost of sales
- ▶ Order intake £509m

## 12 month rolling order intake



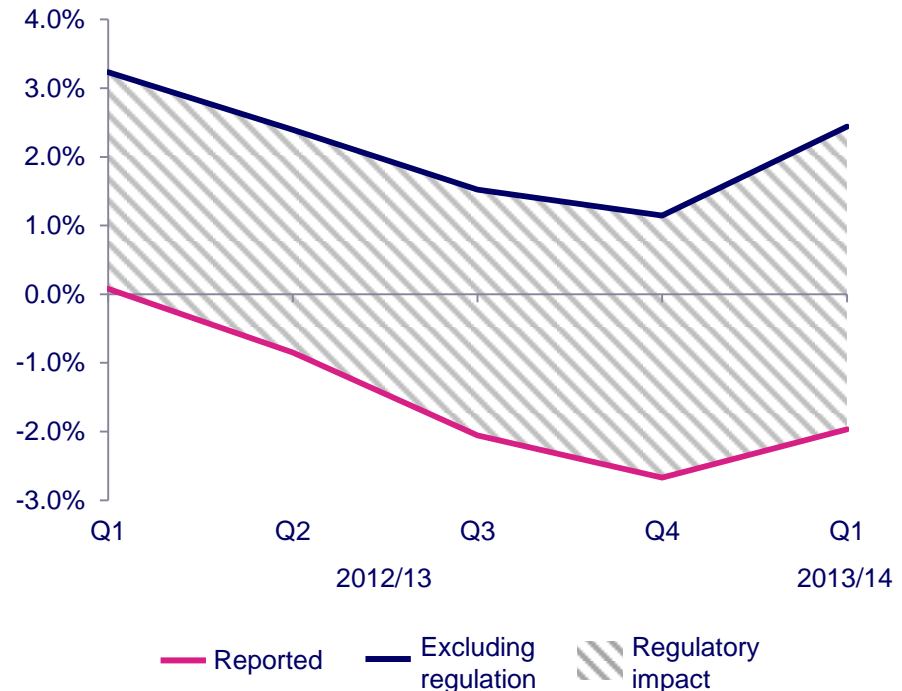
# Q1 2013/14 line of business overview

## Openreach

	Q1 2013/14	Change <sup>1</sup>
Revenue	£1,245m	(2%)
EBITDA	£605m	(4%)

- ▶ Revenue down 2%
  - c.£60m regulatory impact
- ▶ Fibre revenue more than doubled
- ▶ Ethernet revenue up 5% driven by higher volumes
- ▶ Operating costs flat
  - impact of additional engineering resource
- ▶ EBITDA down 4%
- ▶ 12,000 increase in physical lines
  - up 110,000 over 12 months

## YoY revenue growth



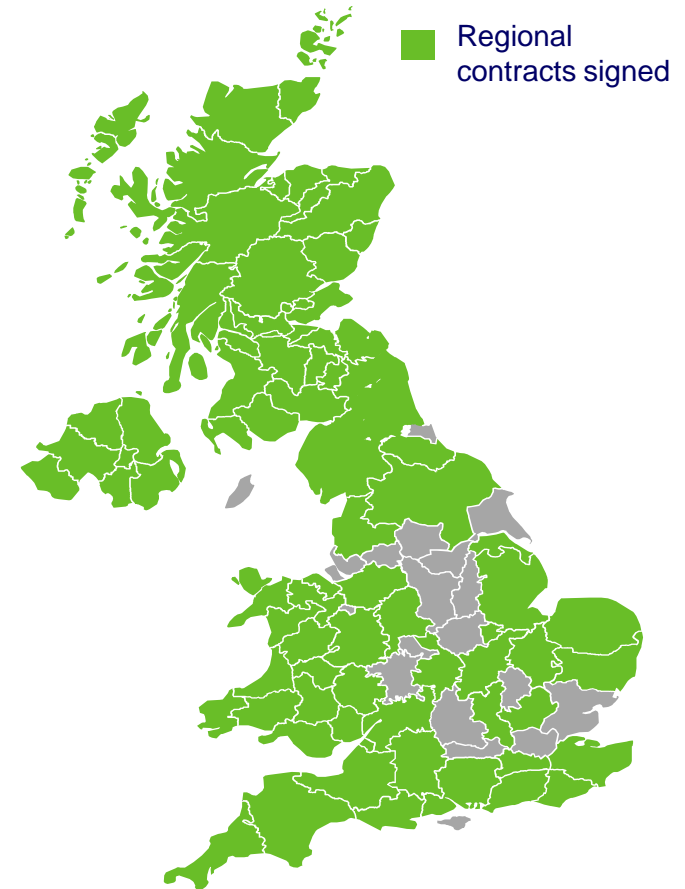


# Q1 2013/14 line of business overview

## Fibre

- ▶ Now >16m premises passed
- ▶ >1.7m premises now connected
- ▶ 265,000 net connections in Q1, up 56%
  - external net adds >3x prior year
- ▶ BDUK progress
  - 29 bids won to date
  - 9 contracts signed in Q1

## Fibre in the 'final third'



# Summary

BT continues to make good progress



Foundations in place for an exciting future

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**Gavin Patterson, CEO, BT Retail**

# Building a better future

- ▶ 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



**More to do**

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**Q&A**