

BT Group plc

Q2 2013/14 results
31 October 2013

Forward-looking statements caution

Certain statements in these presentations 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 and future years' outlook, including revenue trends, EBITDA, capital expenditure and normalised free cash flow; BT Sport; our fibre broadband roll-out programme and progress with our rural network; the impact of regulation; continuing cost transformation; progressive dividends; and liquidity and funding.

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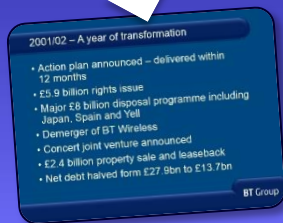
Gavin Patterson, Chief Executive Officer

Our journey

2001-2003

Rehabilitation

- Reducing debt
- Restructuring the business



2003-2008

Move to data

- Defend traditional
- Grow “new wave”



2008-2013

A better business

- Cost transformation
- Investing for the future



2013

A better future

- Further cost transformation
- Customer service improvements
- Delivering on investments

Profitable revenue growth

EBITDA growth

Cash flow growth

Foundations in place for an exciting future

Fibre



TV & Sport



IT services



Mobility



High-growth regions



Delivering on our strategy

Financial objectives

Drive profitable revenue growth

Grow EBITDA

Grow free cash flow

**Invest in
business**

**Reduce
net debt**

**Support pension
fund**

**Progressive
dividends**

Operating Committee



Gavin Patterson
Chief Executive Officer



Tony Chanmugam
Group Finance Director



Luis Alvarez
CEO, BT Global Services



Clare Chapman
Group People Director



Olivia Garfield
CEO, Openreach (invitee)



John Petter
CEO, BT Consumer



Clive Selley
CEO, BT TSO & Group CIO



Nigel Stagg
CEO, BT Wholesale









Graham Sutherland
CEO, BT Business

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Tony Chanmugam, Group Finance Director

Q2 2013/14 group results
















YoY change

Revenue¹	£4,491m	flat	
- underlying ex transit		(0.5%)	
EBITDA¹	£1,434m	(4%)	
EPS¹	6.0p	2%	
Normalised² free cash flow	£610m	up £294m	
Net debt	£8,074m	down £963m	

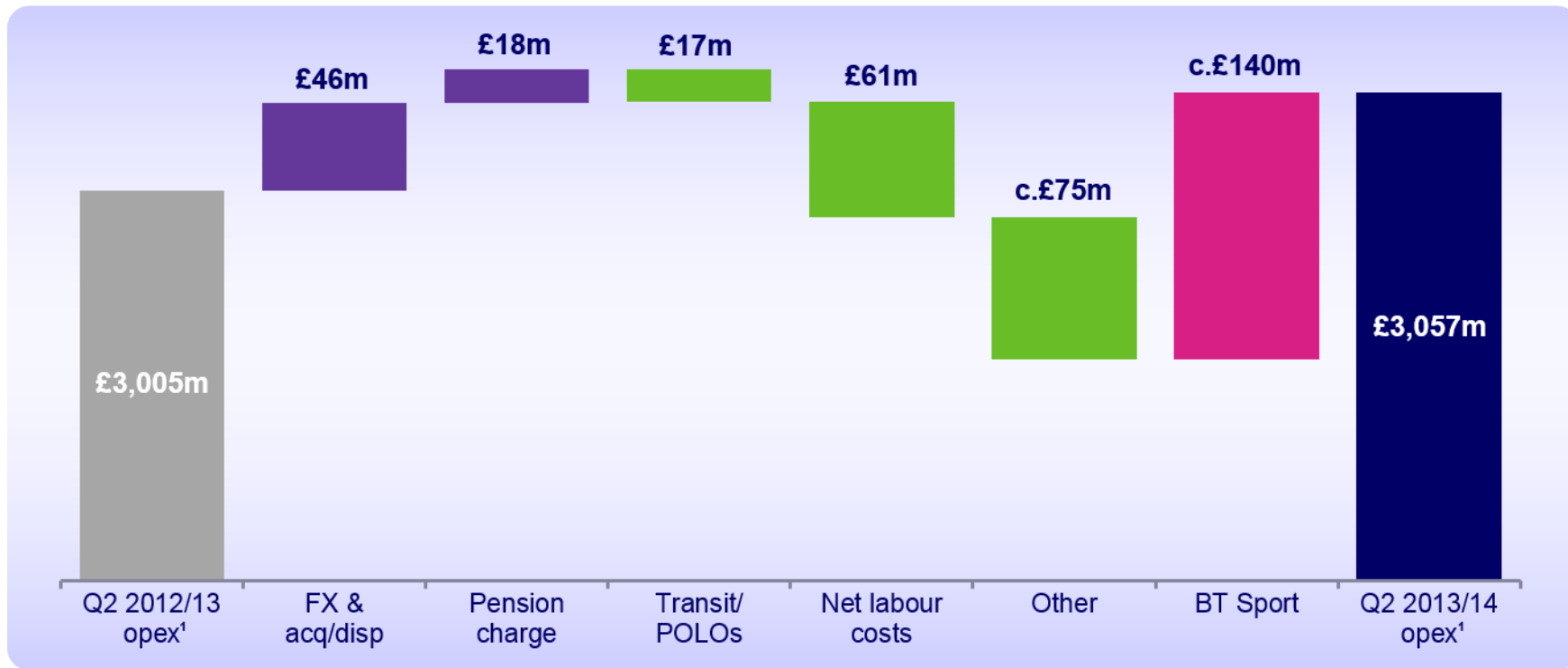
¹ before specific items

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

Q2 2013/14 summary results

	Global Services	Retail	Wholesale	Openreach	Group
Underlying revenue ex transit	 5%	 2%	 3%	 1%	 0.5%
EBITDA ¹	 10%	 13%	 11%	 3%	 4%
Normalised free cash flow	 £193m	 £80m	 £91m	 £17m	 £294m

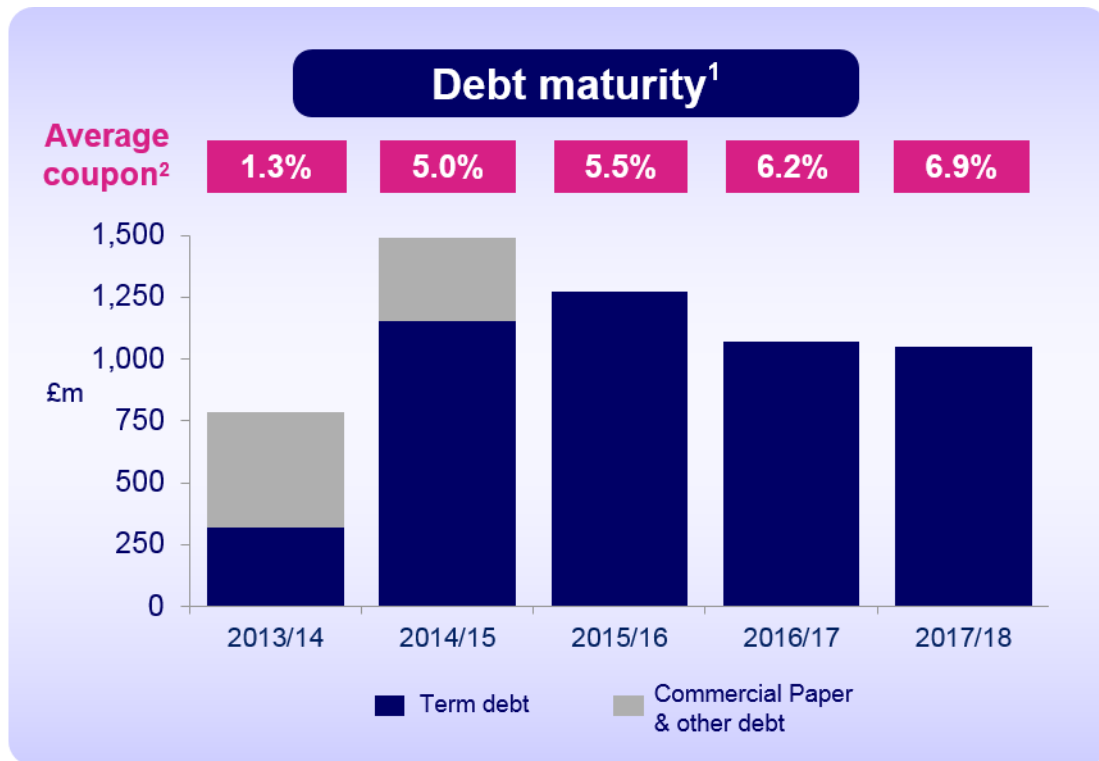
Cost transformation



Cost transformation running at faster pace than Q1

Debt & liquidity

- ▶ Strong liquidity position
 - cash & investments of £1.2bn
 - available facilities of £1.5bn
 - £0.8bn borrowing repayable in H2
- ▶ Continue to target BBB+/Baa1 credit rating



¹ carrying value at 30 September 2013, 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 30 September 2013

Pension IAS 19

	30 Sep 2013	30 Jun 2013
IAS 19 deficit (net of tax)	£5.4bn	£4.0bn
BTPS assets	£39.3bn	£39.5bn
BTPS liabilities (IAS 19)	£45.8bn	£44.5bn
Discount rate (nominal)	4.30%	4.45%
Discount rate (real)	1.07%	1.26%

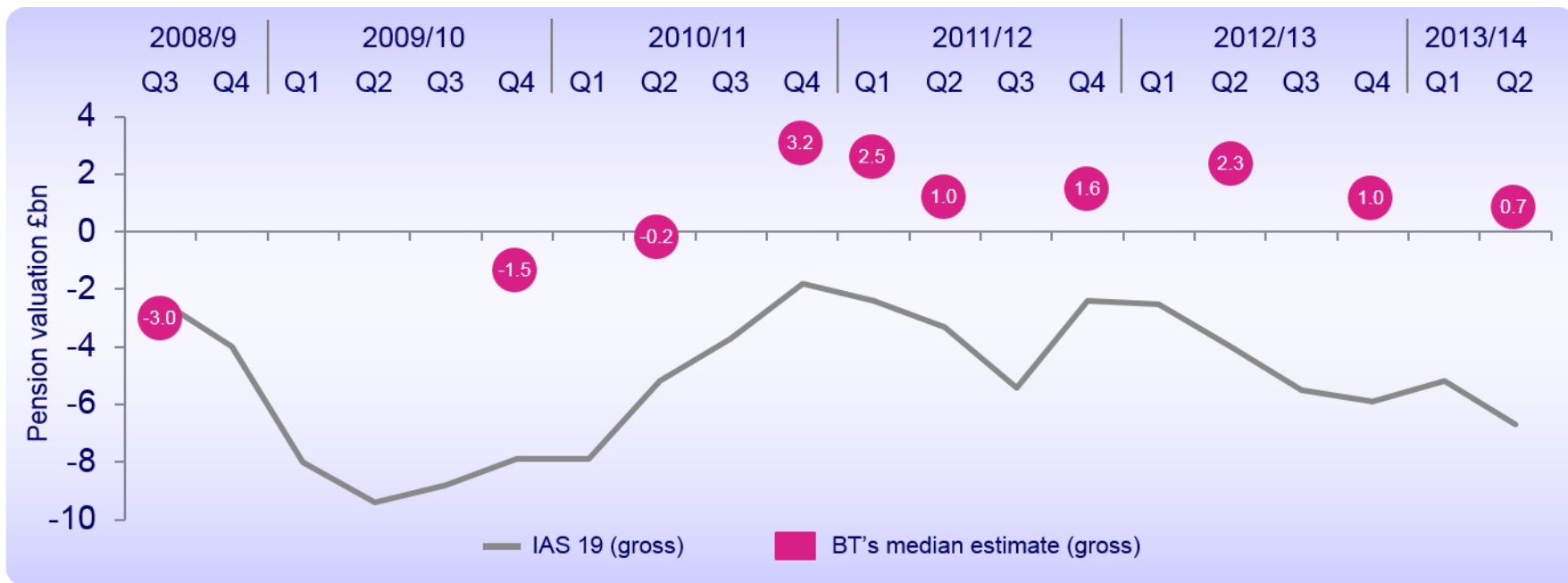
- ▶ IAS 19 deficit £5.4bn net of tax (Q1: £4.0bn)
- ▶ Increase primarily reflects lower real discount rate:
 - £0.8bn impact from 15bp reduction in nominal discount rate
 - £0.2bn impact from 5bp increase in market expectations of future inflation

Pension valuation measures

	IAS 19	BT's median estimate	Actuarial
Purpose	Prescribed accounting measure, disclosed quarterly	BT's best estimate of valuation	Used every 3 years to set cash deficit payments
Approach			
Discount rate	Market yield curve for AA corporate bonds	Expected future asset returns in BTPS	Prudent view of expected future asset returns in BTPS
Other assumptions (e.g. longevity, inflation)	Future expectations		Prudent approach overall required
Assets	Market value		

Pension

- ▶ IAS 19 has historically been volatile
- ▶ BT's median estimate continues to show surplus - £0.7bn at Q2



Regulation

Impact on 2013/14 revenue & EBITDA

WLR, LLU & ISDN30

c.£120m

**Business Connectivity
Market Review**

c.£50m-£100m

**Wholesale Narrowband
Market Review**

Lower fixed call termination from 1 Jan 2014
- partly offset by higher call origination prices

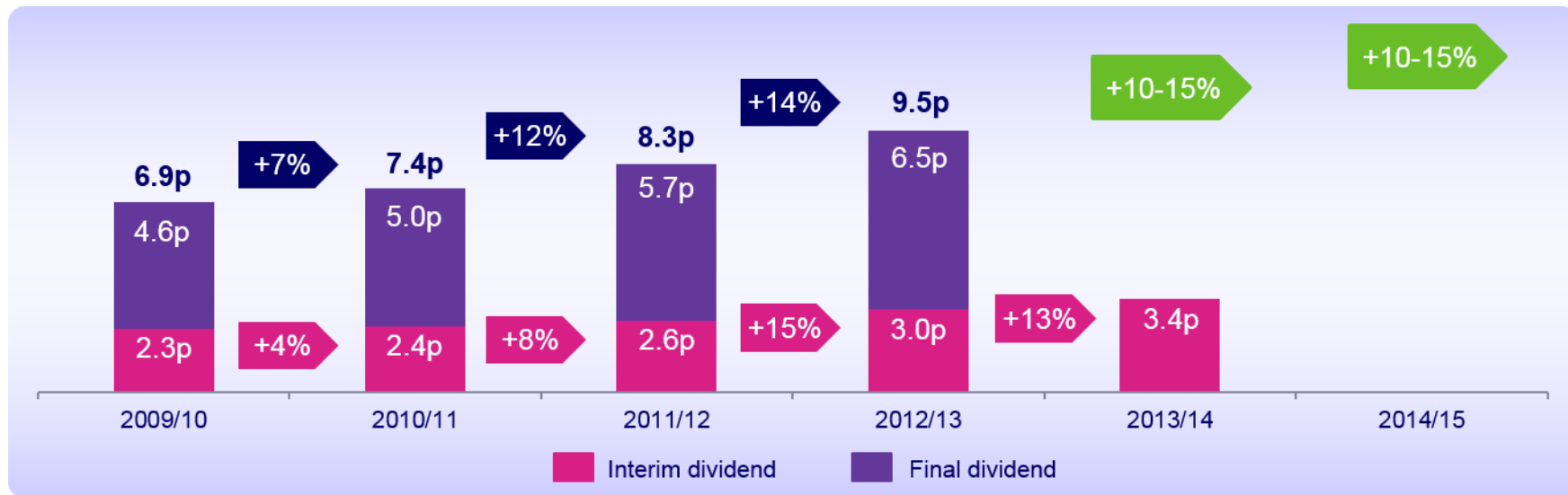
Impact already factored into our outlook

Outlook unchanged

	2013/14	2014/15	2015/16
Underlying revenue ex transit	▶ Improved trend		
EBITDA¹	▶ £6.0bn to £6.1bn	▶ £6.2bn to £6.3bn	▶ Growth
Capex	▶ Broadly level with 2012/13	▶ Broadly level with 2012/13	
Normalised FCF	▶ Around £2.3bn	▶ Around £2.6bn	▶ Growth
Dividends	▶ Up 10-15%	▶ Up 10-15%	

Shareholder returns

Dividend per share



- ▶ 3.4p interim dividend, up 13%
- ▶ Share buyback
 - 23m shares acquired for £77m

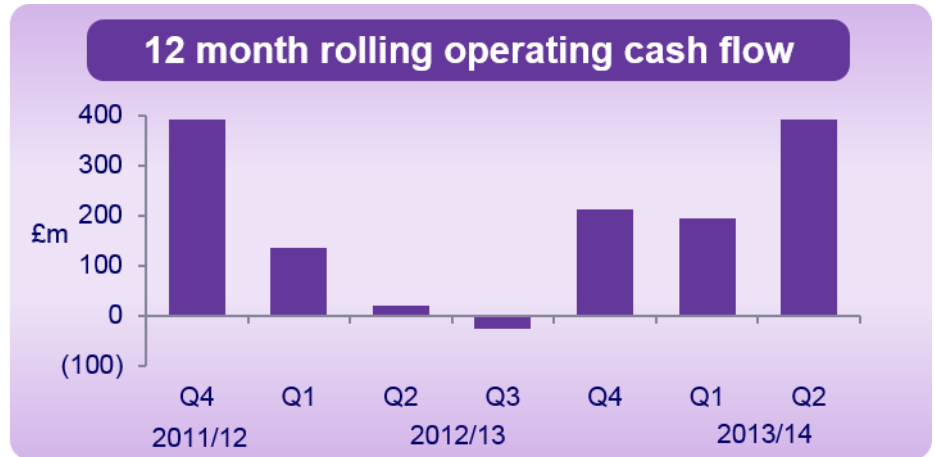
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Gavin Patterson, Chief Executive Officer

Global Services – solid performance

- ▶ Revenue impacted by contract milestone timing
 - will benefit Q3
- ▶ Double-digit revenue growth in high-growth regions¹
- ▶ Good progress on cost transformation
- ▶ Operating cash flow up £193m YoY

	Q2 2013/14	Change
Revenue	£1,694m	(4%)
- u/l ex transit		(5%)
EBITDA	£201m	10%



Global Services

- ▶ £1.5bn orders in quarter, up 19%
- ▶ Contracts signed with leading global organisations



- ▶ Launch of BT MeetMe with Dolby Voice

12 month rolling order intake



Retail – strong quarter

- ▶ Revenue up 2%
 - Consumer up 4%
- ▶ EBITDA down £66m
 - impact of BT Sport
- ▶ Good operational progress
 - 93% market share of broadband net adds¹
 - 195,000 retail fibre net adds, now c.1.7m customers
 - BT Wi-fi minutes more than doubled



	Q2 2013/14	Change
Revenue	£1,843m	2%
- u/l ex transit		2%
EBITDA	£429m	(13%)



Consumer – significant improvement

- ▶ Best YoY revenue performance for >10 years
- ▶ Calls & lines revenue down just 1%
- ▶ Broadband & TV revenue up 17%
- ▶ Successful launch of BT Sport

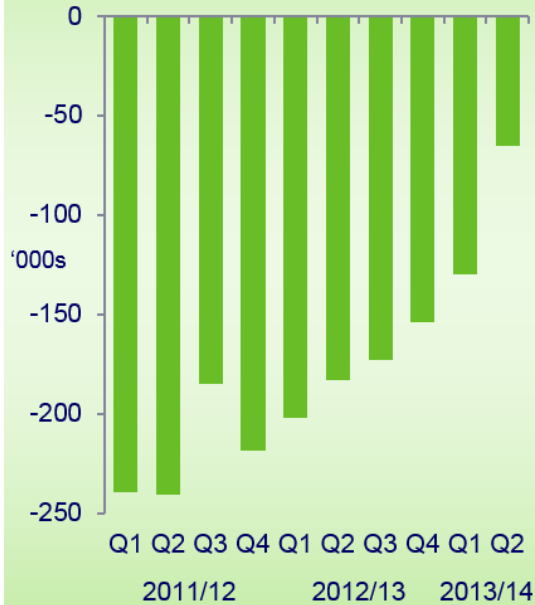


	Q2 2013/14	Change
Revenue	£980m	4%

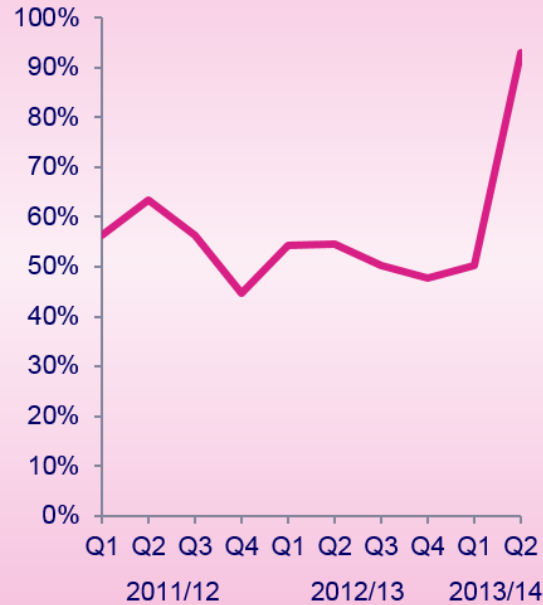


Impact of BT Sport

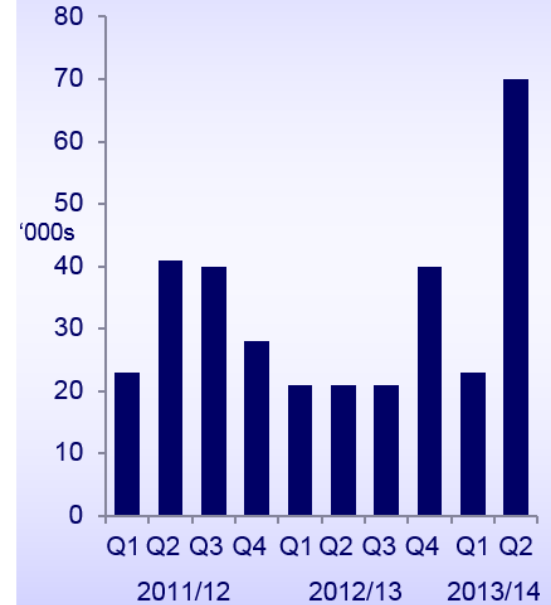
Total consumer line loss



Broadband net adds share¹



TV net additions



Now >2m retail customers, reaching c.4m homes

Premier League audience share
>70% above ESPN last year



Premiership Rugby audience
more than Sky Sports last year



On Boxing
Day



On New
Year's Day



Our strongest ever TV proposition

Entertainment - £7

18 pay TV channels plus free access to 4 HD channels



Kids Extra - £3



HD Extra - £3



BT Sport – SD Free, HD £3



Sky Movies - £16

sky MOVIES

Sky Sports – from £15



Other BT Retail units on track

- ▶ Business revenue flat
 - 7% growth in IT services
 - 5% decline in calls & lines

- ▶ Enterprises underlying revenue down 1%
 - Conferencing down 2% due to lower hardware sales

- ▶ Ireland underlying revenue ex transit up 2%
 - growth in business division

	Q2 2013/14	Change
Business	£550m	flat
Enterprises	£193m	3%
Ireland	£181m	2%



Wholesale – steady progress

- ▶ Excluding ladder pricing
 - underlying revenue ex transit up 1%
 - costs ex transit flat
 - EBITDA up 3%
- ▶ IP Exchange minutes up c.60%
- ▶ Order intake £409m, up 33%
 - good performance in smaller deals (Spitfire, Timico, Nine Telecom)
 - IP Exchange contract with EE

	Q2 2013/14	Change
Revenue	£624m	1%
- u/l ex transit		3%
EBITDA	£159m	11%



¹ underlying revenue excluding transit and ladder pricing

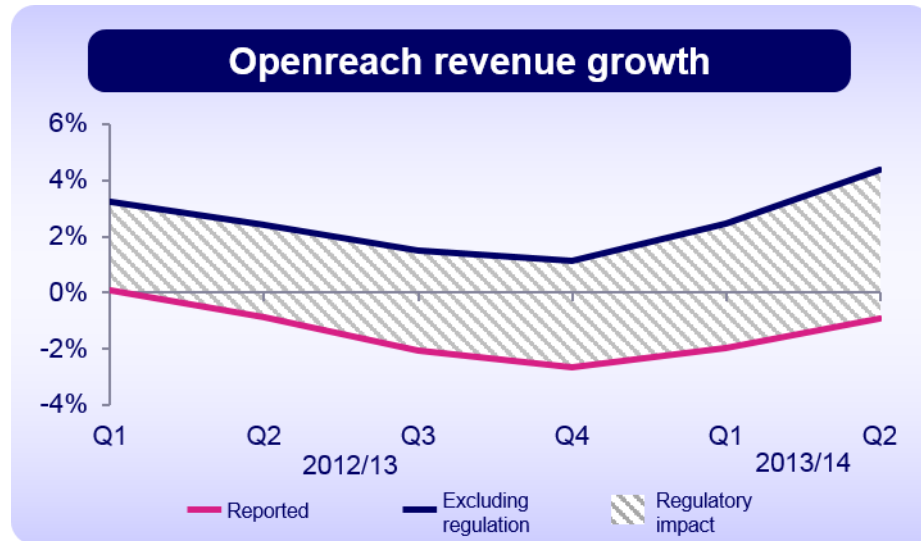
Openreach – solid performance impacted by regulation

- ▶ Revenue down 1%
 - c.£70m impact from regulation
 - fibre revenue up 115%

- ▶ Operating costs up 2%
 - investing in service
 - increased headcount
 - higher volumes

- ▶ 8,000 decline in physical lines
 - 38,000 decline in Q2 2012/13
 - up 140,000 over 12 months

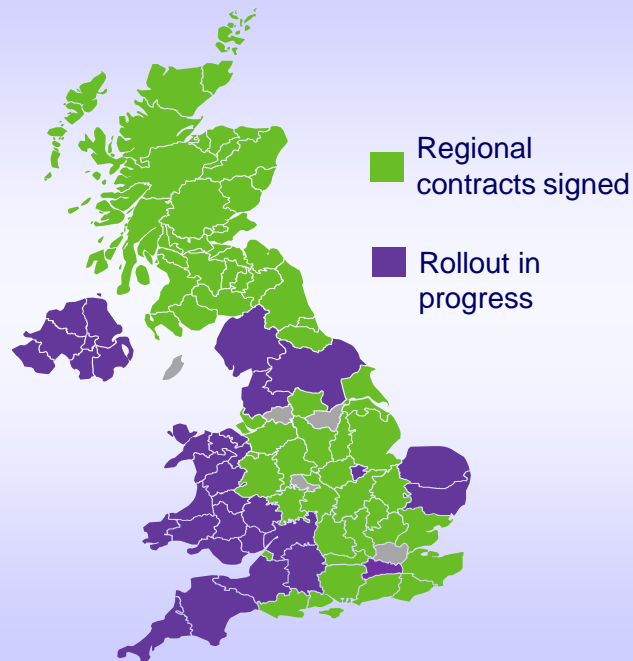
	Q2 2013/14	Change
Revenue	£1,271m	(1%)
EBITDA	£642m	(3%)



Openreach – fibre

- ▶ >17m premises now passed
 - >2m premises now connected
- ▶ 316,000 net connections in Q2, up 70%
 - external net adds up >300%
- ▶ 44 regional fibre contracts¹ now signed
 - >100,000 regional fibre premises passed in quarter
- ▶ Started vectoring trial

Fibre in the ‘final third’



In Summary

- ▶ Good financial performance with growth in earnings & cash
- ▶ Best ever fibre quarter
- ▶ Confident start to BT Sport
- ▶ Record broadband share
- ▶ Strong order books in Global Services & Wholesale

Building on strong foundations already in place

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Q&A

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Back up

Income statement

£m	Q2 2013/14	Change	Key points
Revenue¹	4,491	0%	<ul style="list-style-type: none"> ▶ transit down £24m ▶ £36m FX benefit
- underlying ex transit		(0.5%)	<ul style="list-style-type: none"> ▶ strong performance in Consumer offset by regulation
EBITDA¹	1,434	(4%)	<ul style="list-style-type: none"> ▶ impact of investment in BT Sport
Operating profit¹	757	(1%)	<ul style="list-style-type: none"> ▶ depreciation down 6%
Profit before tax¹	609	2%	<ul style="list-style-type: none"> ▶ lower depreciation and lower interest
EPS¹	6.0p	2%	
Specific items	140	115%	<ul style="list-style-type: none"> ▶ £231m credit from tax rate change on deferred tax, £52m of restructuring charges

Free cash flow

£m	Q2 2013/14	Change	Key points
EBITDA¹	1,434	(54)	
Capex	(634)	(15)	
Interest	(71)	58	▶ lower debt, timing of coupons
Tax ²	(91)	90	▶ timing/overpayments in prior years
Working capital & other	(28)	215	▶ improvement in Global Services, lower VAT payments ▶ Premier League rights instalment
Normalised FCF	610	294	
Cash tax benefit of pension deficit payments	19	(143)	
Specific items	(72)	18	▶ restructuring (£50m), property rationalisation (£18m)
Reported FCF	557	169	

¹ before specific items

² before cash tax benefit of pension deficit payments