



BT Group plc

Q2 2014/15 results

30 October 2014



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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

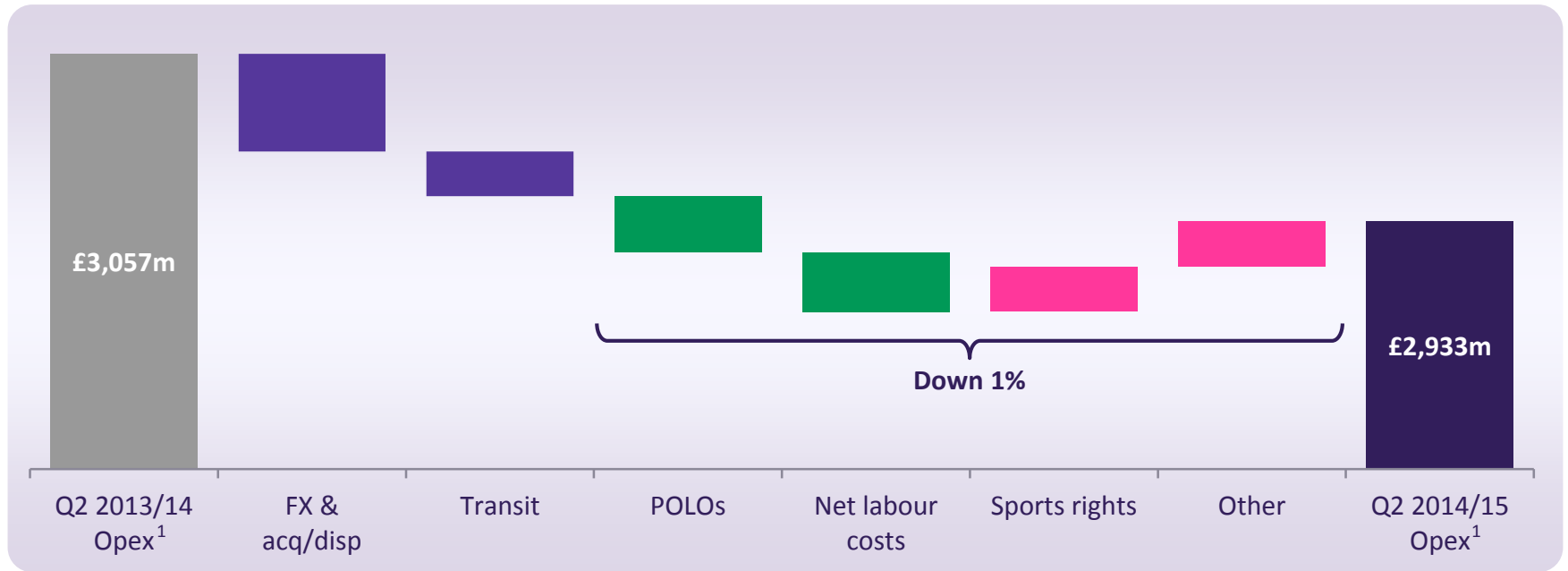
Revenue¹	£4,383m	(2)%	
- underlying ² ex transit		0.2%	
EBITDA¹	£1,450m	1%	
EPS¹	6.9p	15%	
DPS	3.9p	15%	
Normalised free cash flow³	£533m	down £77m	
Net debt	£7,063m	down £1,011m	

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

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

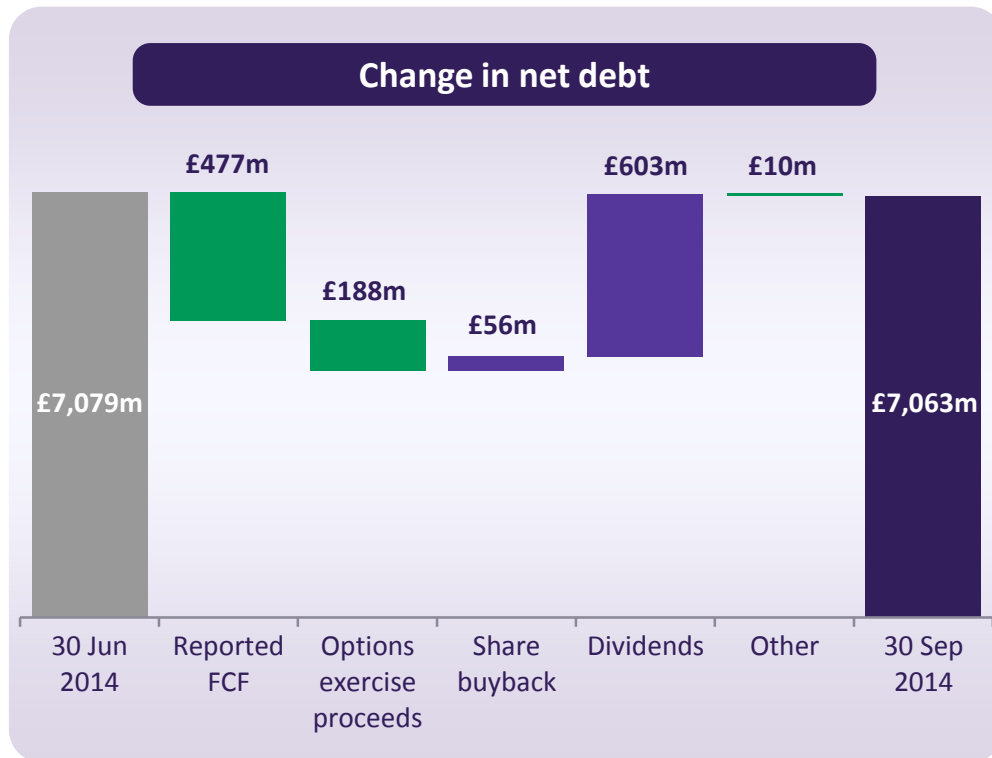


▶ Travel and subsistence

- 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



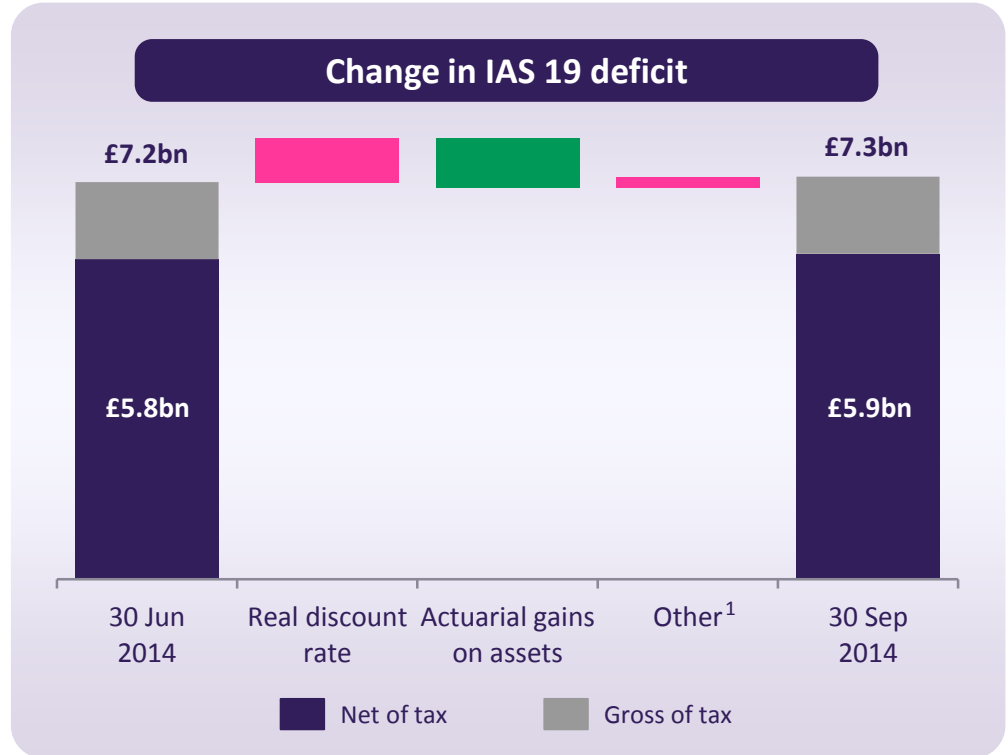
Other financial information

▶ 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

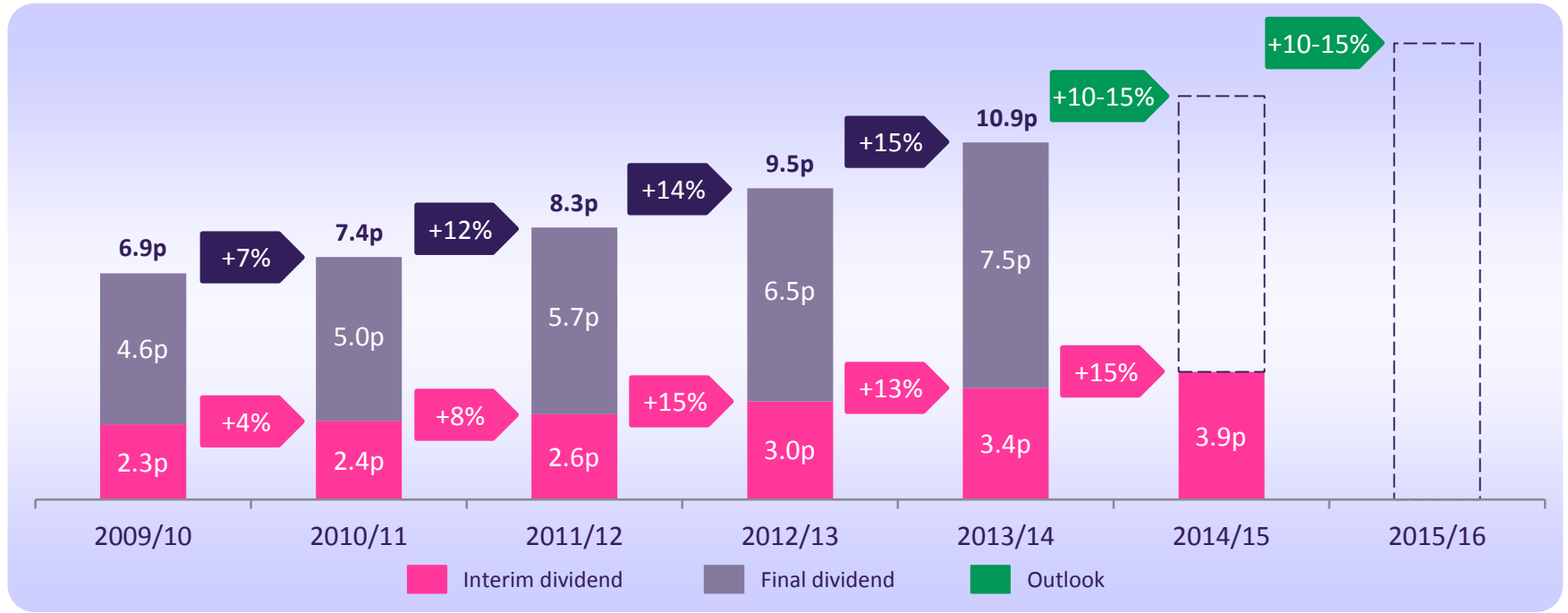
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Shareholder returns

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

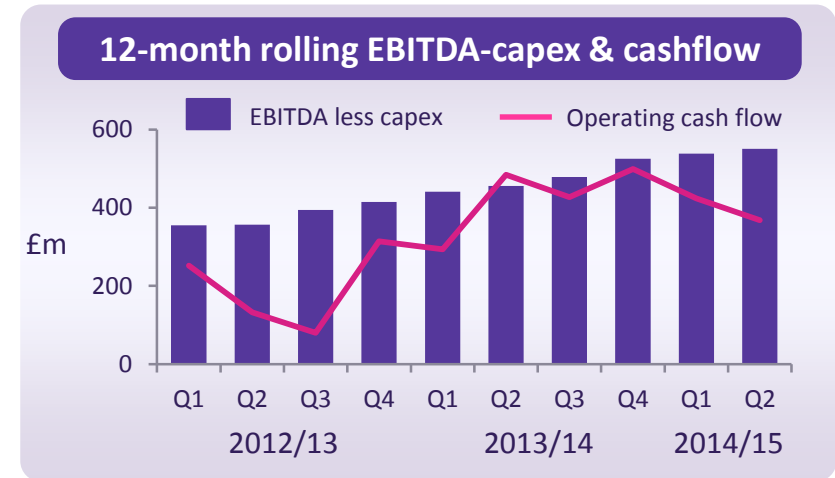
- 3 new cloud-enabled data centres in Q2
- taking Ethernet Connect to 15 new countries



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

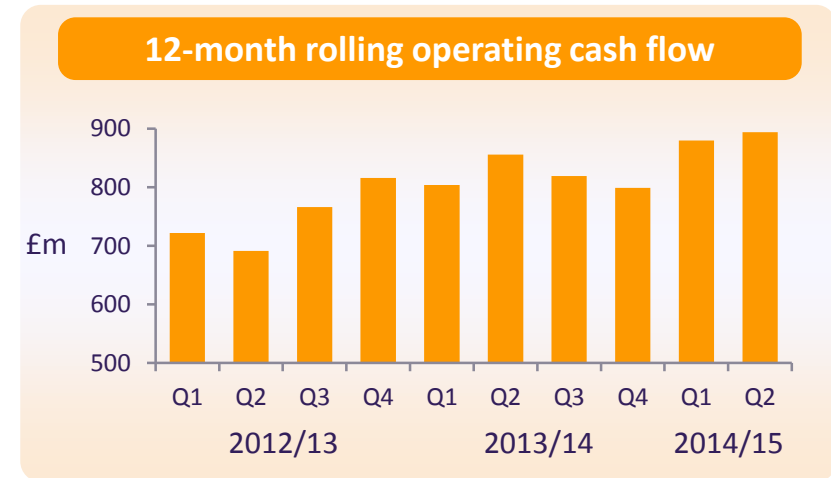
	Q2 2014/15	YoY change
Revenue	£1,649m	(5)%
- u/l ex transit		(1)%
EBITDA	£226m	2%



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%

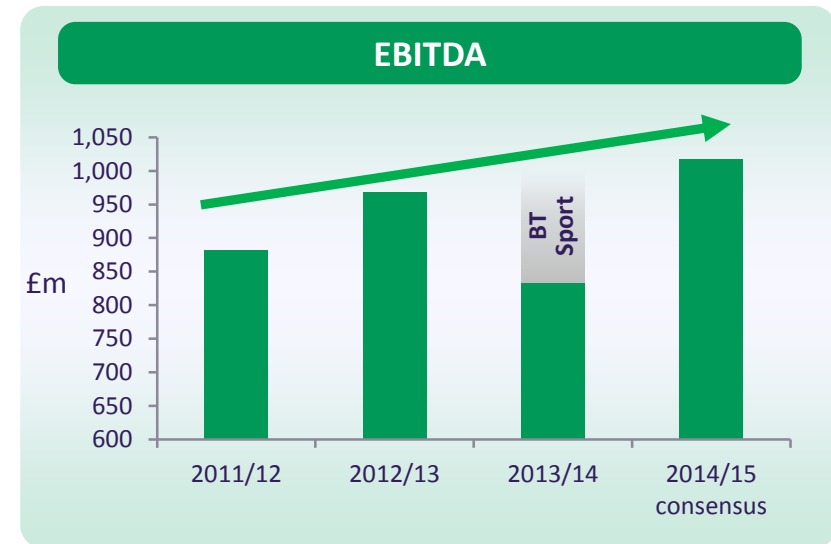
	Q2 2014/15	YoY change
Revenue	£789m	(1)%
- u/l ex transit		(1)%
EBITDA	£258m	4%



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%

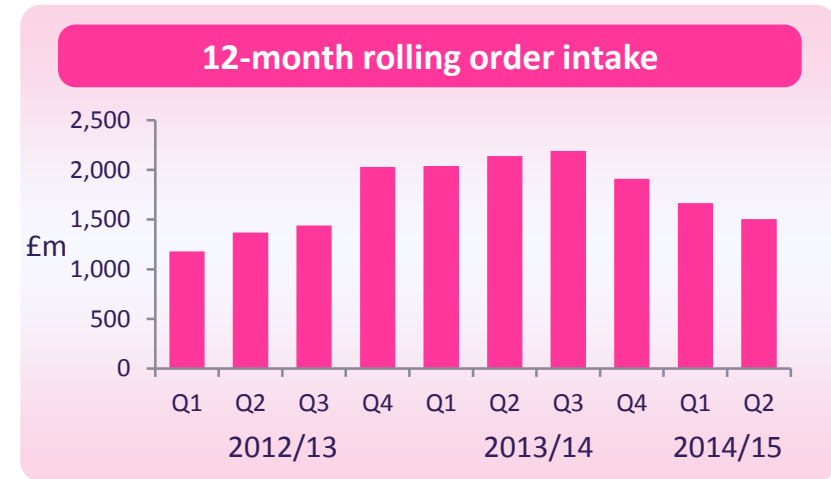


¹ share of growth in DSL and fibre broadband market, excluding cable

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

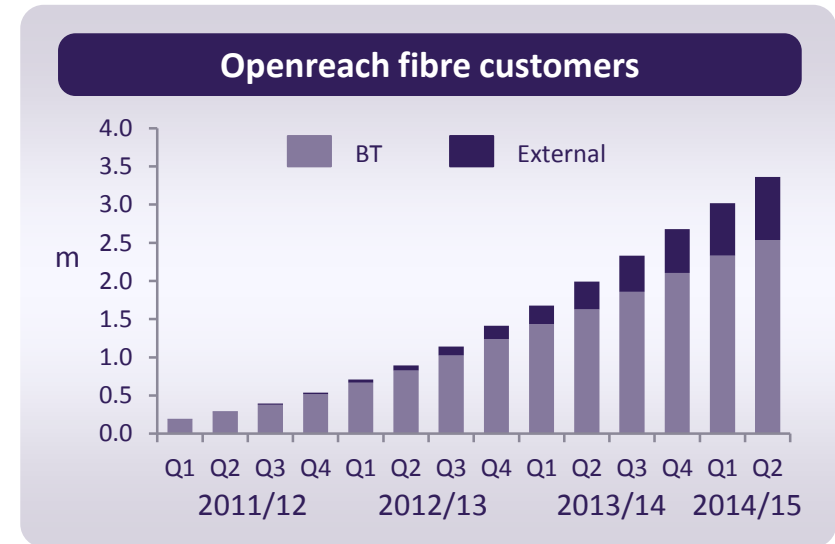
	Q2 2014/15	YoY change
Revenue	£529m	(15)%
- u/l ex transit		(11)%
EBITDA	£125m	(21)%



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)%	<ul style="list-style-type: none"> ▶ £77m negative impact from FX ▶ £36m reduction in transit revenue
- underlying ex transit		0.2%	<ul style="list-style-type: none"> ▶ higher broadband and TV revenue in Consumer offset by reductions in Wholesale and Openreach
EBITDA¹	1,450	1%	<ul style="list-style-type: none"> ▶ up 2% excluding FX
Operating profit¹	832	10%	<ul style="list-style-type: none"> ▶ depreciation and amortisation down 9%
Profit before tax¹	690	13%	
EPS¹	6.9p	15%	
Specific items²	(107)	n/m	<ul style="list-style-type: none"> ▶ 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

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