

# BT Group plc

## Q3 2014/15 results

30 January 2015

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# Tony Chanmugam, Group Finance Director

# Financial overview

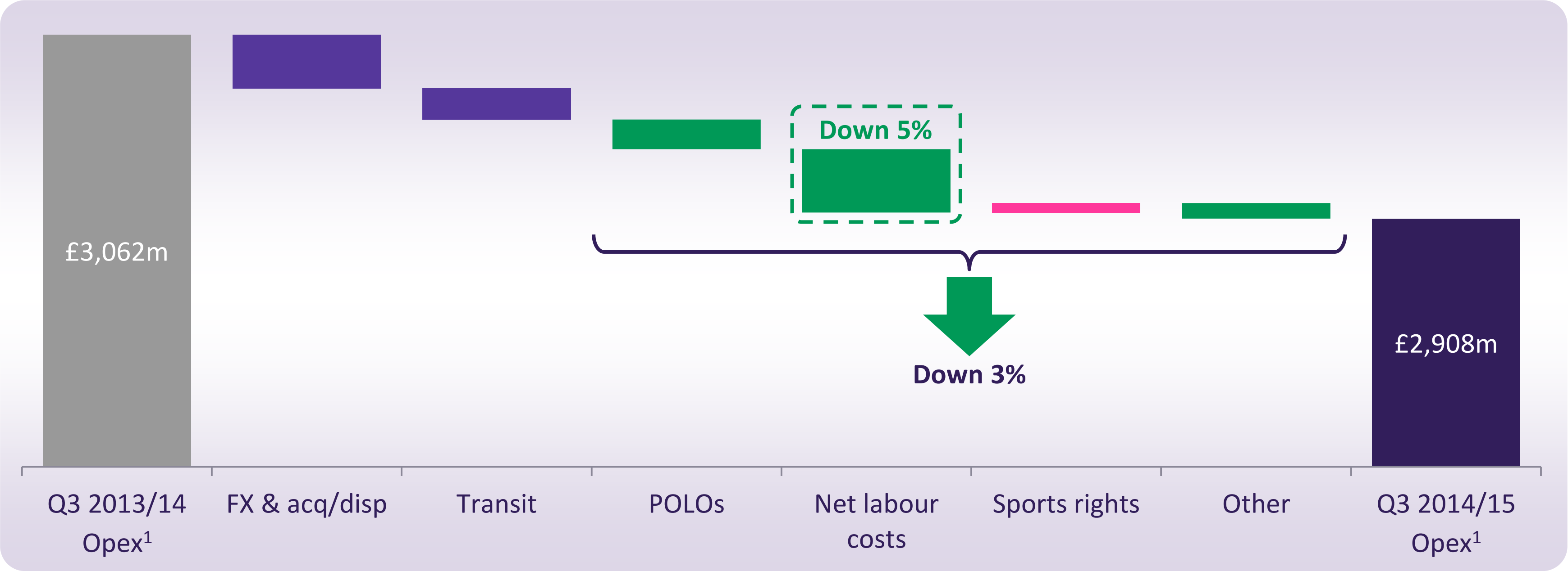
- Strong growth in Q3 earnings and cash flow
- Good performance on cost transformation
- Good progress on EE due diligence, will update market in due course
- Triennial pension valuation agreed

# Q3 2014/15 group results

| | | YoY change |
|---|---|---|
| **Revenue**[1] | £4,475m | (3)% |
| - underlying[2] ex transit | | (1)% |
| **EBITDA**[1] | £1,567m | 2% |
| **EPS**[1] | 8.0p | 10% |
| **Normalised free cash flow**[3] | £908m | up £354m |
| **Net debt** | £6,202m | down £1,438m |

[1] before specific items
[2] excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
[3] before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

# Q3 2014/15 operating costs[1]




**Down 5%; underlying ex transit down 3%**

**Still >£1bn of gross cost saving opportunities**

[1] before specific items and depreciation and amortisation

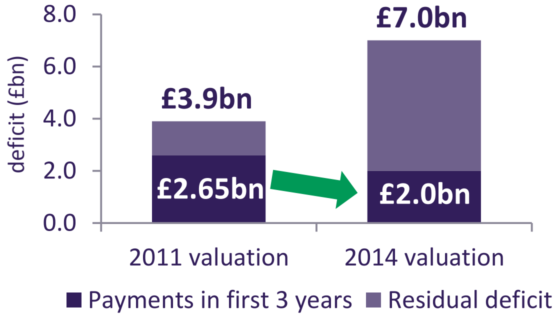
# Pension – 2014 triennial funding valuation – key features

**1**

- Pleased to reach agreement in challenging market conditions
  - continuing low interest rate environment
- Deficit of £7.0bn at June 2014 agreed with Trustee
  - £5.6bn after tax relief

**2**

- £2.0bn to be paid into Scheme over next 3 years
  - £2.65bn paid into Scheme in 3 years following 2011 valuation
  - tax efficient £1.5bn payment by end of April 2015 utilising cash on balance sheet




**3**

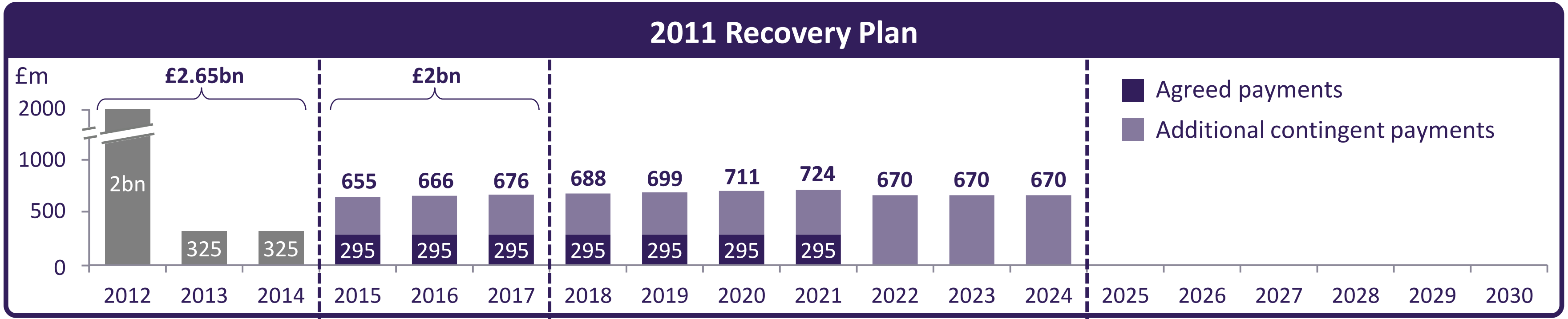
- 16 year recovery plan
  - longer plan reflects the strength and sustainability of our future cash flow generation

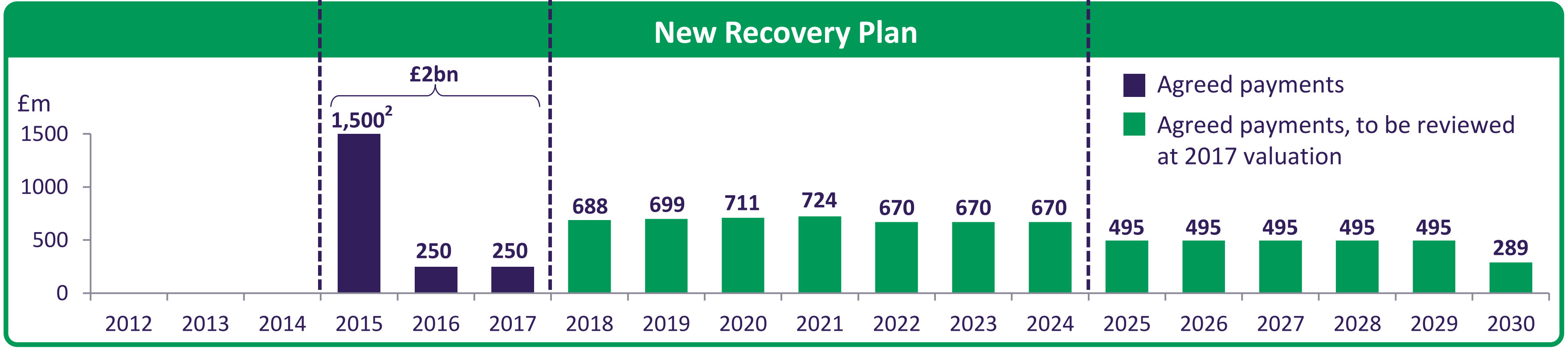
**4**

- Agreement on future payment reductions if deficit reduces
  - if 2017 valuation is lower than remaining recovery plan, reduction reflected in new recovery plan

# Pension – 2014 triennial funding valuation – recovery plan[1]

- Payments in first 10 years of new recovery plan in line with 2011 agreement



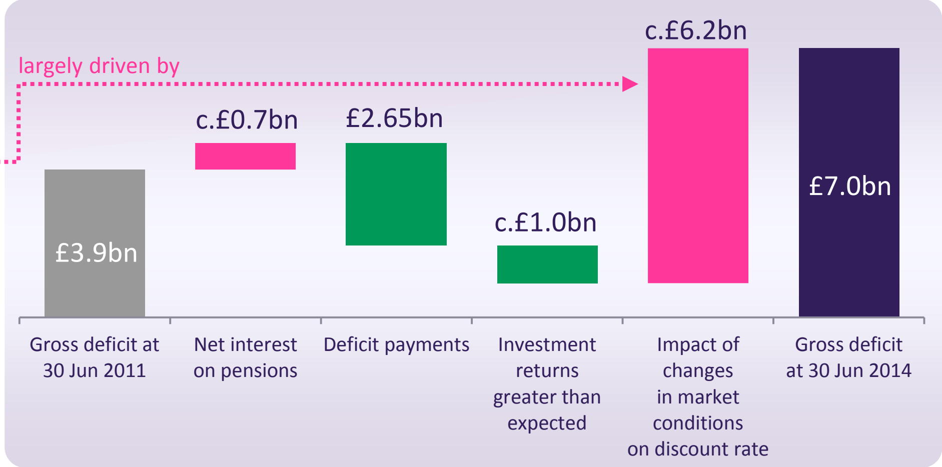




[1] Years are to 31 March
[2] By end of April 2015

# Pension – 2014 triennial funding valuation – assumptions

- Increase in deficit reflects higher liabilities due to low real discount rate

| | June 2011 | June 2014 |
|---|---|---|
| Assets (£bn) | 36.9 | 40.2 |
| Liabilities (£bn) | (40.8) | (47.2) |
| **Deficit (£bn)** | **(3.9)** | **(7.0)** |
| | | |
| Equivalent real discount rate | 2.0% | 1.0% |
| RPI inflation (long-term) | 3.2% | 3.5% |
| CPI inflation (long-term) | 2.2% | 2.5% |




Note: Other movements net to zero and are not shown on the chart (including salary increases and changes to demographic assumptions, such as longevity)

# Pension – 2014 triennial funding valuation – other features

| | 2011 plan | New plan |
|---|---|---|
| **Shareholder distributions** | Additional matching contributions if:<br>– cumulative dividends exceed cumulative pension deficit contributions<br><br>Applies from 1 March 2012 to completion of 2014 valuation[1] | Additional matching contributions if shareholder returns exceed:<br>– cumulative DPS increases of 15% pa, plus<br>– share buyback of £300m pa<br><br>Applies from 29 January 2015 to completion of 2017 valuation[2] |
| **Disposals & acquisitions** | If disposal proceeds exceed £1bn in any year, 1/3 of proceeds paid into scheme<br><br>BT to consult with Trustee if it considers making acquisitions above £1bn in any 12 month period | As for 2011 valuation; plus<br><br>BT to consult with Trustee if it contemplates significant corporate events<br>– details of potential EE acquisition discussed with Trustee |

[1] Or 30 June 2015, if earlier
[2] Or 31 March 2019, if earlier

# Outlook – unchanged

| | 2014/15 | 2015/16 |
|---|---|---|
| **Underlying revenue[1] ex transit** | Broadly level with 2013/14 | Growth |
| **EBITDA[2]** | £6.2bn - £6.3bn | Growth |
| **Normalised FCF[3]** | Above £2.6bn | Growth |
| **Dividend per share** | Up 10-15% | Up 10-15% |

[1] excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
[2] before specific items
[3] before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

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# Gavin Patterson, Chief Executive

# Operational overview

- Highest growth in landlines on record
- Best ever Openreach fibre take-up
  - exploring how to significantly increase fibre speeds
- Top and bottom line growth in Consumer
- Strong order intake in Global Services
- Making good progress on EE due diligence
  - acquisition would enable us to accelerate existing mobile strategy

# Global Services – strong order intake

- Underlying revenue ex transit down 7%
  - timing of prior year milestones
  - good performance in continental Europe, disappointing in UK
- Underlying operating costs ex transit down 6%
  - continued focus on cost transformation
- EBITDA down 8% ex FX
  - YTD broadly level ex milestones
- Operating cash inflow of £52m
  - down £59m due to working capital movements
- £2.1bn order intake, up 36%
  - 12-month rolling down 1% but up 9% since Q2

| | Q3 2014/15 | YoY change |
|---|---|---|
| Revenue | £1,694m | (8)% |
| - u/l ex transit | | (7)% |
| EBITDA | £261m | (10)% |

**Gartner Magic Quadrant for Global Network Service Providers**


Source: Gartner, Magic Quadrant for Global Network Service Providers, Neil Rickard, Bjarne Much, January 14, 2015

This graphic was published by Gartner, Inc. as part of a larger research document and should be evaluated in the context of the entire document. The Gartner document is available upon request from http://www.globalservices.bt.com/uk/en/news/gartner-nsp-mq-2015.
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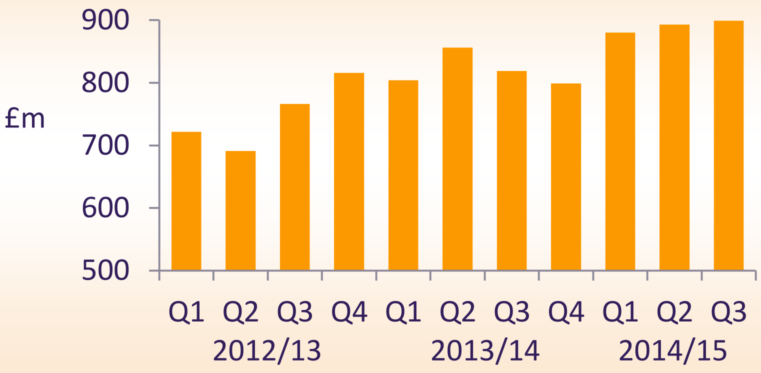
# Business – continued good cost control

- Underlying revenue ex transit down 1%
  - voice down 5% due to migration to VoIP
  - data & networking up 2%
  - continued fibre growth, with net adds up 45%
- Underlying operating costs ex transit down 4%
  - total labour resource down 9%
- EBITDA up 4%
- Operating cash flow up 3%
- Order intake up 3%
  - 12-month rolling up 8%

| | Q3 2014/15 | YoY change |
|---|---|---|
| Revenue | £789m | (2)% |
| - u/l ex transit | | (1)% |
| EBITDA | £266m | 4% |

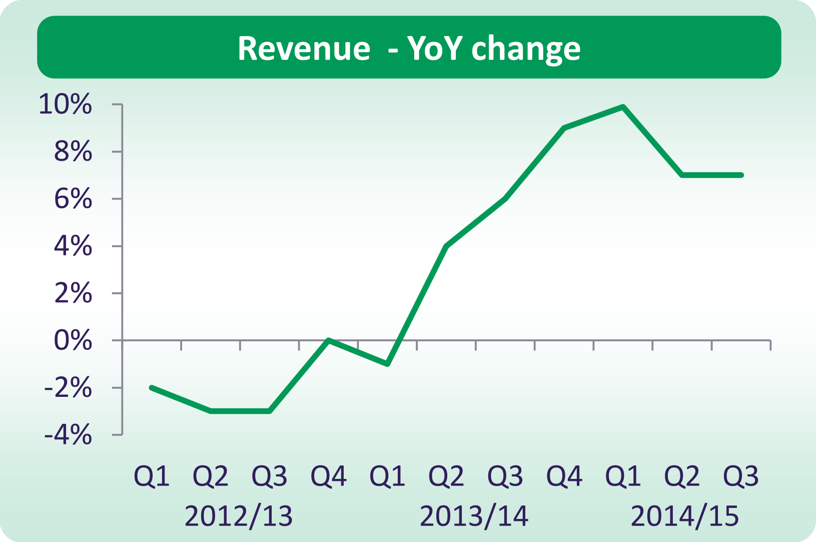
12-month rolling operating cash flow



# Consumer – strong top and bottom line growth

- Revenue up 7%
  - broadband & TV up 15%
  - ARPU up 7%
- EBITDA up 43%
- 209,000 retail fibre broadband net adds
  - over 35% of broadband base on fibre
- 119,000 retail broadband net adds
  - 46% share[1] of market net additions
- Consumer line loss of 60,000
  - c.30% better than Q2
- 45,000 TV customers added
- 30% of pubs now subscribe to BT Sport

| | Q3 2014/15 | YoY change |
|---|---|---|
| Revenue | £1,083m | 7% |
| EBITDA | £251m | 43% |



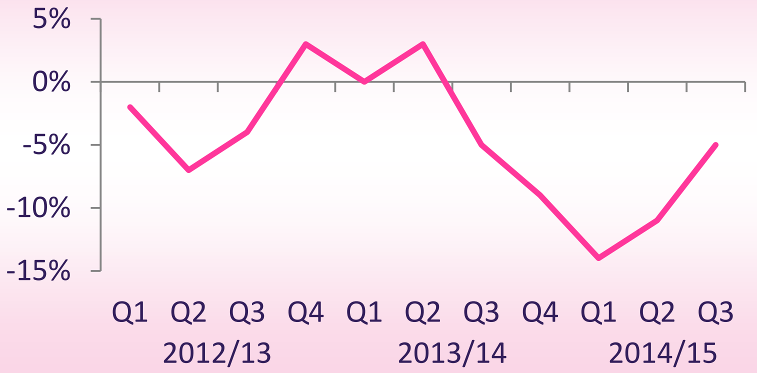

[1] share of growth in DSL and fibre broadband market

# Wholesale – better performance, headwinds remain

- Underlying revenue ex transit down 5%
  - improved performance vs Q2
  - continued decline in calls, lines & circuits, including the impact of Ofcom's NBMR[1]
  - IP services revenue up 45%
- Underlying operating costs ex transit down 5%
  - 19% decline in SG&A costs
- EBITDA down 7%
- Order intake £439m
  - down 6%, but significant improvement vs. Q2
- Rated as a "leader" by Current Analysis[2]

| | Q3 2014/15 | YoY change |
|---|---|---|
| Revenue | £532m | (10)% |
| - u/l ex transit | | (5)% |
| EBITDA | £136m | (7)% |

**Underlying revenue ex. transit – YoY change**



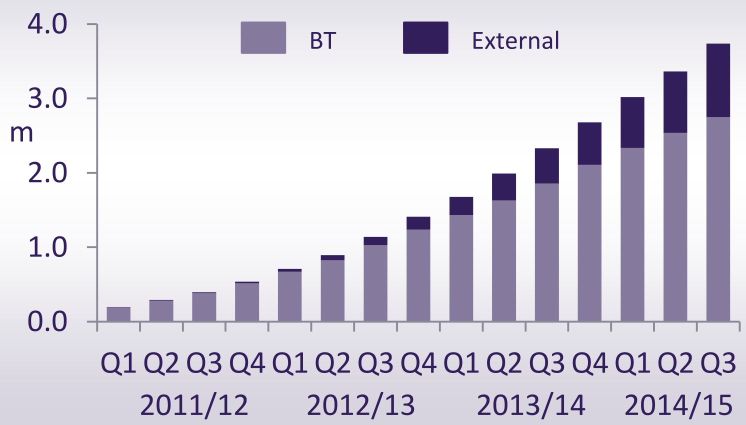

[1] Narrowband Market Review
[2] in the domestic UK wholesale carrier segment

# Openreach – record fibre growth

- Revenue down 1%
  - c.£45m impact from regulation
  - partly offset by 36% growth in fibre revenue
- Operating costs down 2%
  - despite recruiting 2,400 engineers in last 12 months
- EBITDA down 1%
  - smaller benefit from sale of redundant copper
- 111,000 increase in physical lines
  - best performance on record
- Record quarter for fibre
  - 375,000 net adds, up 11%
    - 44% provided to our external CP customers
  - >3.7m premises connected
    - 17% take-up of premises passed

| | Q3 2014/15 | YoY change |
|---|---|---|
| Revenue | £1,255m | (1)% |
| EBITDA | £651m | (1)% |

## Openreach fibre customers



# Future network vision

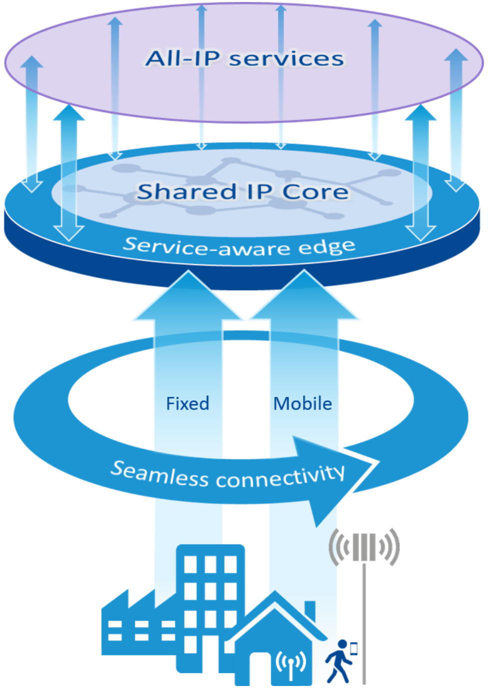
**The convenience of mobile with the power of fixed**

## Services

- Seamless connectivity to the best fixed and mobile networks
- Customers migrate to “All-IP” services
  - driven by compelling bundles of voice, broadband, TV and mobility
  - by 2025, all customers will be using IP voice

## Network

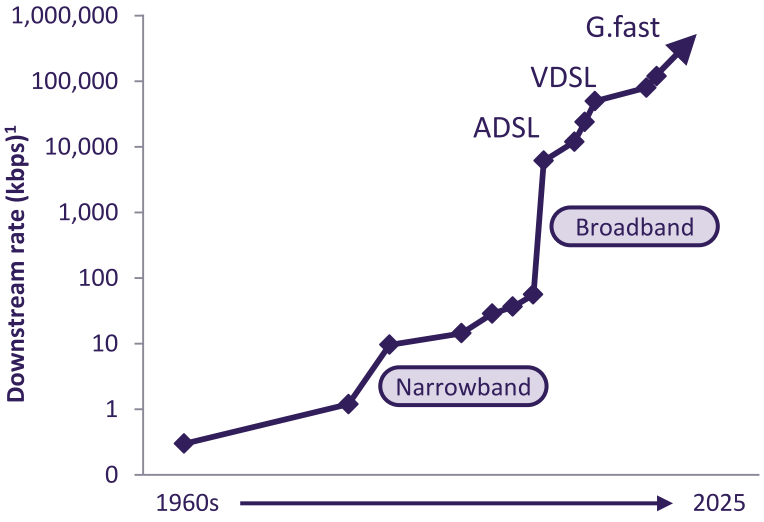
- One common access platform
- Connected through copper, fibre and mobile
- A single, IP core network
  - replacing legacy networks and platforms



# Ultrafast fibre speeds

- Currently around three-quarters of UK premises passed with fibre
  - working with government to reach 95% of UK
- G.fast improvements will enable distribution point or cabinet-based deployment
  - multi-hundred Mbps speed
  - builds on existing NGA investment
  - scale pilots in Huntingdon and Gosforth from the summer
- Ten-year vision of 500Mbps available across most of the UK
  - premium 1Gbps fibre broadband services for high-demand customers
- Investment managed broadly within existing capex envelope

**Evolution of access standards and speeds**




[1] Log scale

# Summary

- On track for full year outlook
- Investments are delivering
- Continuing to invest in Britain’s connected future
- Certainty on pension scheme contributions for next 3 years
- Mobility plans on track



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# Q&A



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# Appendix

# Income statement

| £m | Q3 2014/15 | YoY change | Key points |
|---|---|---|---|
| **Revenue**[1] | 4,475 | (3)% | £49m negative impact from FX<br>£26m reduction in transit revenue |
| - underlying ex transit | | (1)% | decline reflects contract milestones which benefitted results last year |
| **EBITDA**[1] | 1,567 | 2% | improved growth vs recent quarters driven by cost transformation |
| **Operating profit**[1] | 949 | 9% | depreciation and amortisation down 8% |
| **Profit before tax**[1] | 814 | 13% | |
| **EPS**[1] | 8.0p | 10% | |
| Specific items[2] | (94) | 21% | includes £72m net interest expense on pensions and £54m of restructuring charges |

[1] before specific items
[2] net charge after tax

# Free cash flow

| £m | Q3 2014/15 | YoY change | Key points |
|---|---|---|---|
| **EBITDA**[1] | 1,567 | 30 | |
| Capex | (568) | - | |
| Interest | (183) | 22 | timing of payments, lower net debt |
| Tax[2] | (70) | 82 | tax benefit from share options maturing |
| Working capital & other | 162 | 220 | UEFA rights payment last year; timing of Wholesale customer receipts last year |
| **Normalised FCF** | 908 | 354 | |
| Cash tax benefit of pension deficit payments | 15 | (4) | |
| Specific items | 4 | 62 | includes £57m of receipts from ladder pricing judgment; offset by restructuring costs of £54m |
| **Reported FCF** | 927 | 412 | |

[1] before specific items
[2] before cash tax benefit of pension deficit payments