


BT Group plc

Q1 2015/16 results

30 July 2015

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Gavin Patterson, Chief Executive

Q1 overview

- 4 out of 5 premises can now get our superfast fibre broadband
  - original base-case assumption of 20% penetration now achieved

- Mobile plans off to a good start
  - >100,000 customers in 3 months

- Adding great content to BT TV and BT Sport
  - AMC BT Sport EUROPE BT Sport ULTRA HD

- Solid start to the financial year
  - on track for full year outlook


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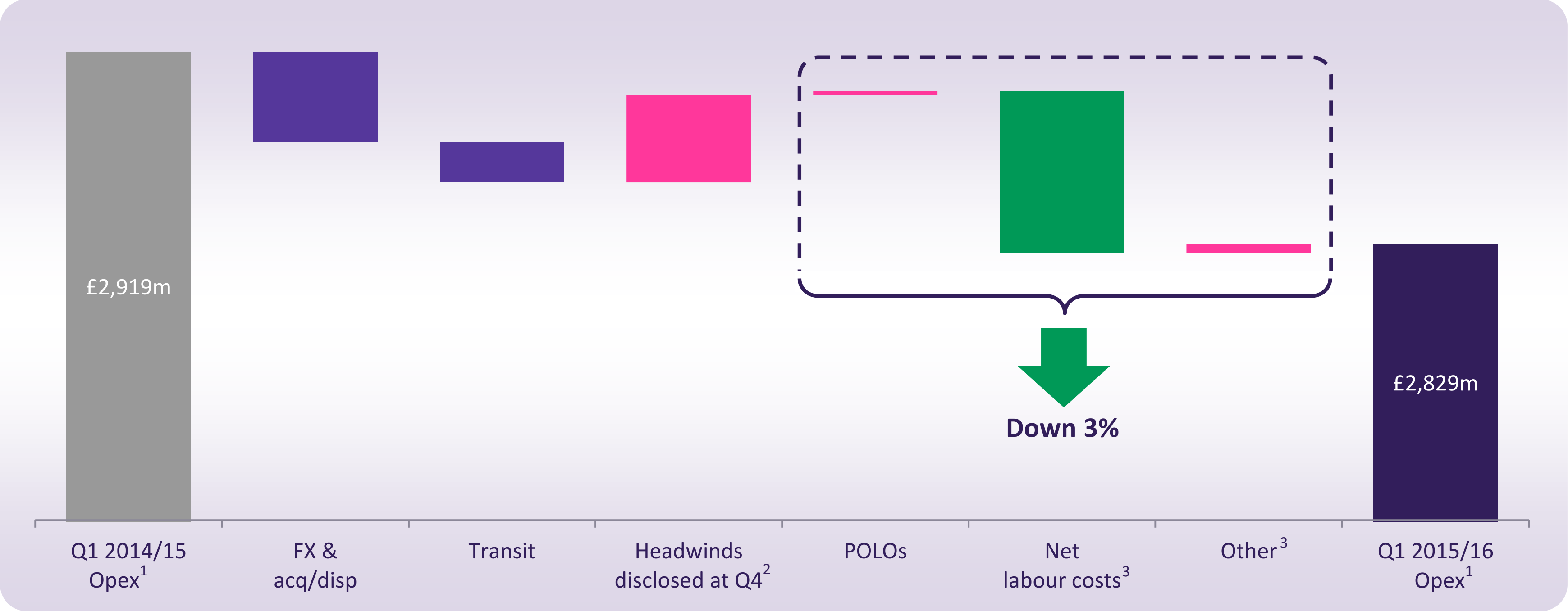
Tony Chanmugam, Group Finance Director

Q1 results on track for full year outlook

		YoY change
Revenue[1]	£4,278m	(2)%
- underlying[2] ex transit		flat
EBITDA[1]	£1,449m	1%
EPS[1]	6.7p	3%
Normalised free cash flow[3]	£106m	down £16m
Net debt	£5,819m	down £1,260m

[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

Steady reduction in operating costs



Underlying opex[1] ex transit down 1%; down 3% ex headwinds disclosed at Q4

[1] before specific items and depreciation and amortisation
[2] no benefit this year from the sale of redundant copper, higher pensions operating charge, higher leaver costs and investment in BT Sport Europe
[3] excluding impact of headwinds

Cost transformation examples

Still >£1bn of gross cost saving opportunities

- Pan BT - field engineering
  - improving cost efficiency and quality, reducing lead times
  - cross-skilling engineers
  - reviewing third-party suppliers

- Global Services - contract delivery
  - review of how we design and deliver new contracts
  - c.£20m opportunity

- Global Services - contact centres
  - reviewing end-to-end processes to reduce cost of failure
  - extending best practice, introducing standardised measures for assessing productivity
  - c.£70m opportunity

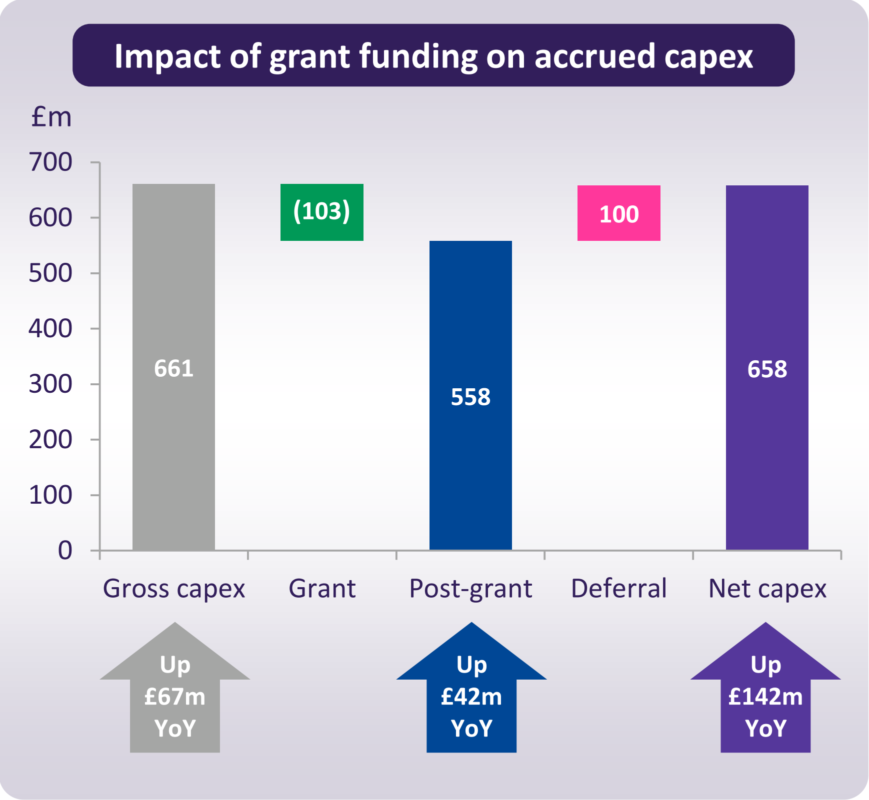
Strong market-wide demand for fibre broadband

Increase in base-case assumption for future fibre take-up

	Original	Now
Across fibre network	20%	28%
Within BDUK areas	20%	30%

Capex – impact of new fibre take-up assumption

- £103m grant funding for network investment in quarter (Q1 2014/15: £78m)
- Implying capex after funding of £558m
  - up £42m YoY
- Increase in base-case fibre take-up assumption drives £100m deferral of grant funding earned to date
  - will be repaid or re-invested in future financial years
- Resulting in net capex of £658m
  - up £142m YoY



2015/16 outlook[1] unchanged

Underlying revenue[2] ex transit	Growth
EBITDA[3]	Modest growth
Normalised free cash flow[4]	Around £2.8bn
Dividend per share	Up 10-15%

[1] standalone BT, excluding any impact of planned EE acquisition
[2] excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
[3] before specific items
[4] before specific items, pension deficit payments and the cash tax benefit of pension deficit payments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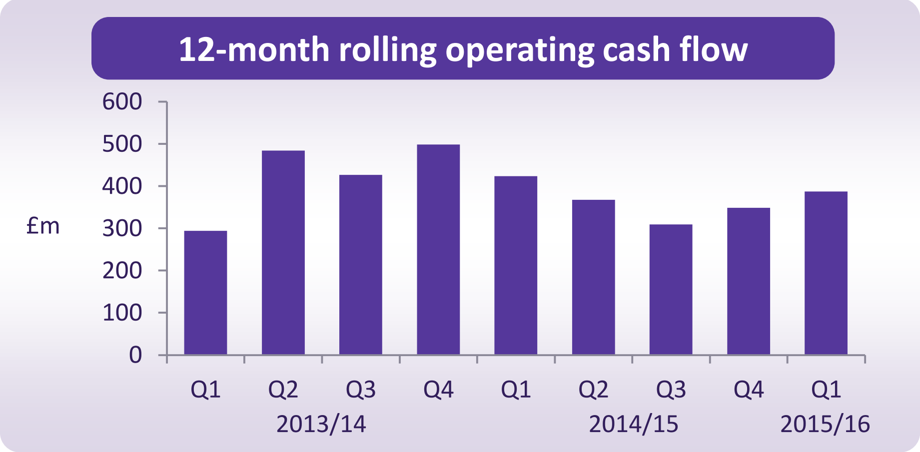
Gavin Patterson, Chief Executive

Global Services – ongoing UK headwinds

- Underlying revenue ex transit down 4%
  - UK down 12%, mainly lower public sector revenue
  - strong growth in AMEA
- Underlying operating costs ex transit down 4%
  - lower revenue and benefits of cost transformation
- EBITDA down 7% ex FX
  - impact of leaver costs and major health programmes moving into service and maintenance phase
  - Q1 decline disappointing but not reflective of FY expectation
- Operating cash outflow of £292m (Q1 2014/15: £337m outflow)
  - usual seasonal phasing of working capital
- More cyber-security products launched
- Good order intake, up 14%
  - 12-month rolling up 4%

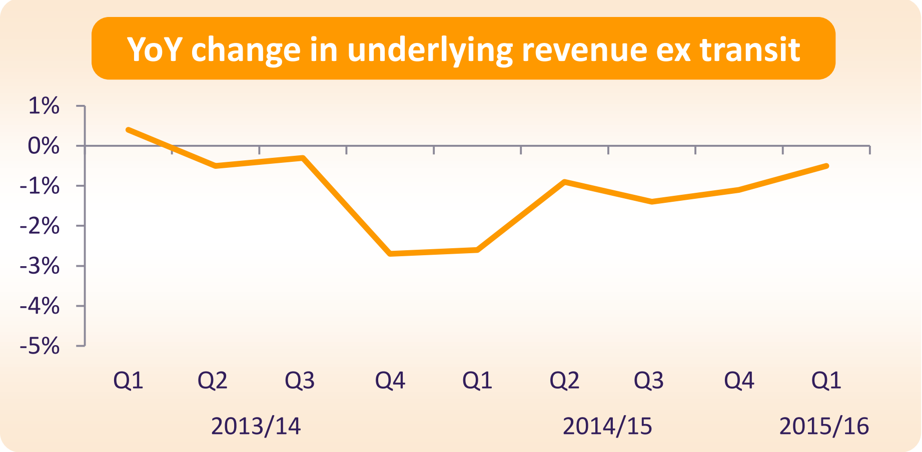
	Q1 2015/16	YoY change
Revenue	£1,543m	(6)%
- u/l ex transit		(4)%
EBITDA	£190m	(11)%



Business – steady financial performance

- Underlying revenue ex transit down 1%, in line with recent quarters
  - voice down 6% due to migration to VoIP
  - data & networking up 3%
  - IT services up 3%
- Underlying operating costs ex transit down 1%
- EBITDA flat
  - changing margin mix offset by cost transformation
- Operating cash flow down 39%
  - last year benefited from working capital timing
- Order intake down 6%
  - 12-month rolling down 3%

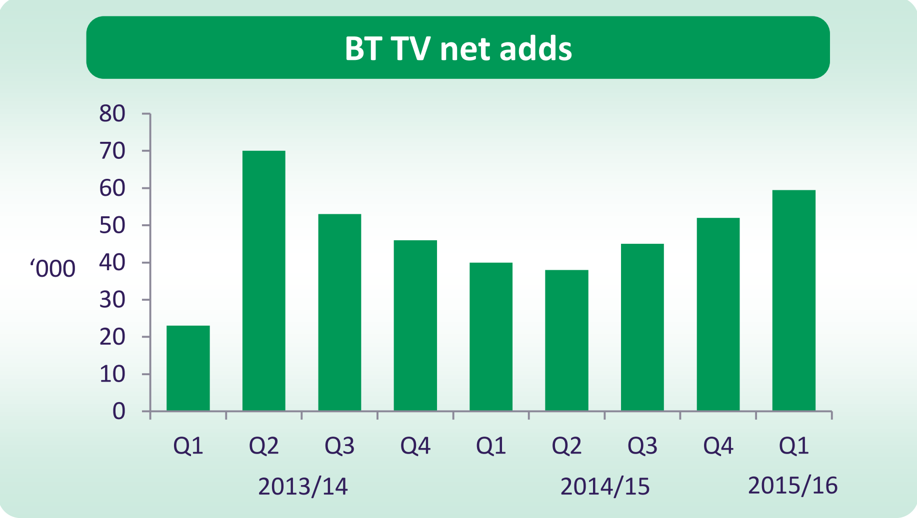
	Q1 2015/16	YoY change
Revenue	£749m	(2)%
- u/l ex transit		(1)%
EBITDA	£240m	flat



Consumer – good operational progress

- Consistent revenue growth, up 3%
  - broadband and TV up 7%
  - ARPU up 5% to £419
- EBITDA up 7%
  - strong performance across voice and broadband
  - expected to decline in Q2 with launch of BT Sport Europe
- Operating cash flow of £211m, down 7%
  - investment in broadband capacity and customer service
- >100,000 BT Mobile customers added in first 3 months
- Consumer line loss broadly in line with last quarter
- 85,000 retail broadband net adds[1]
  - 57% of market[2] growth
  - 217,000 retail fibre net adds

	Q1 2015/16	YoY change
Revenue	£1,074m	3%
EBITDA	£254m	7%



[1] includes business customers
[2] DSL & fibre

Consumer – exciting developments in TV and Sport

BT TV

- 60,000 customers added in quarter
- Base now 1.2m
- Continuing to enhance offering

  - **AMC** channel launching in late August
  - leading US TV network

  - partnership with **HBO Home Entertainment** for download-to-own

BT Sport

- Average daily viewing up >50%
- BT Sport Pack launching on 1 August

  - including BT Sport EUROPE the new home of European football
  - showing all 351 UEFA Champions League and UEFA Europa League games this season
  - free with BT TV
- BT Sport ULTRA HD launching in August
  - first ultra HD (4K) live sports channel in Europe
  - £15/month for ‘Entertainment Ultra HD’ TV package

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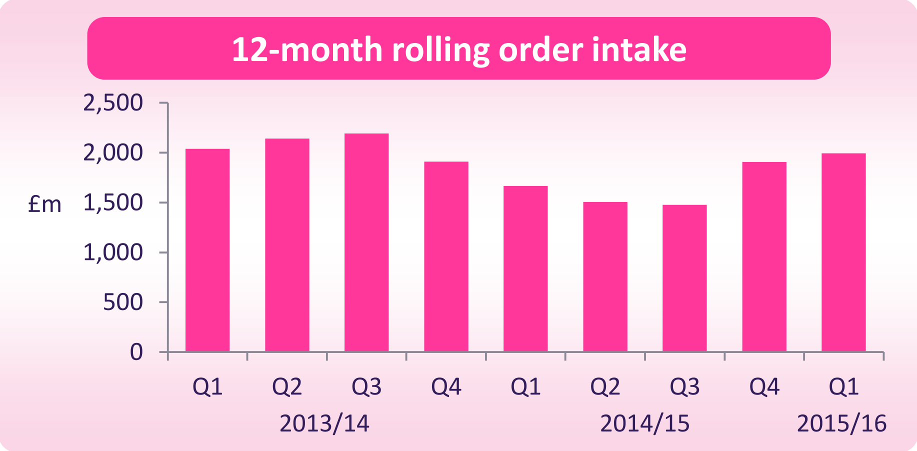
Wholesale – improved performance

- Underlying revenue ex transit up 5%
  - managed solutions revenue up 4%
  - good growth in IP services, up 32%
  - c.£15m benefit relating to ladder pricing
- Underlying operating costs ex transit up 3%
  - higher volumes in managed solutions
  - partly offset by a 17% decline in SG&A costs
- EBITDA up 11%
  - reflects ladder pricing benefit
- Operating cash flow of £117m, up £106m YoY
  - working capital timing
- Order intake £351m, up 33%
  - 12-month rolling up 20%

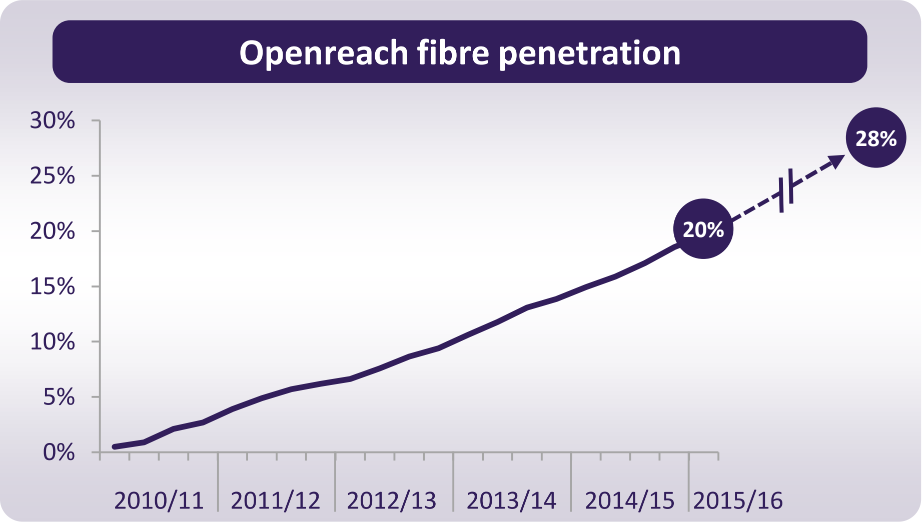
	Q1 2015/16	YoY change
Revenue	£530m	1%
- u/l ex transit		5%
EBITDA	£140m	11%



Openreach – strong fibre progress

- Revenue flat
  - c.£40m impact from regulation
  - offset by 42% growth in fibre broadband
- Operating costs down 2%
- EBITDA up 2%
  - despite no benefit from sale of redundant copper
- Operating cash flow of £270m, down 9%
  - growth in EBITDA offset by higher capex
- 389,000 net fibre connections, up 14%
  - c.4.6m premises connected, 20% of those passed
- Physical line base down 6,000
  - up 196,000 over past 12 months
- Business Connectivity Market Review
  - we disagree with Ofcom's 'starting price adjustment'
  - dark fibre proposal would disadvantage small operators, reduce investment and impact customer service

	Q1 2015/16	YoY change
Revenue	£1,249m	flat
EBITDA	£639m	2%



Ofcom's Strategic Review of Digital Communications

- Ofcom paper published 16 July
  - discussion only, no regulatory proposals
- Review offers scope to deregulate
- We believe the current model of functional separation has been successful and should remain to encourage investment
- Ofcom needs to provide long-term regulatory certainty
- Opportunity to create a more level playing field in pay-TV

Improving Openreach customer service

- Running ahead of all 60 minimum service levels[1] set by Ofcom for 2015/16, which are more stretching than those in 2014/15
- Continued investment in service is delivering improvements:

	Q1 2014/15	Q1 2015/16	
1. Better appointment availability People are getting installation appointments 1 day earlier than a year ago	8 days	7 days	Average time for first available installation date
2. Keeping our commitments Over 99% of the time we offer an appointment within our SLA	12%	0.8%	Installation requiring an engineer where offered appointment is 1 or more working days above SLA
3. Fixing faults faster	75%	77%	Faults fixed within agreed time (maintenance level 1 & 2)
4. Installing Ethernet faster Businesses are waiting 5 days less for installation	67 days	62 days	Mean time to install (working days)

[1] In July 2014, Ofcom introduced minimum service levels for the installation of new lines and for repairs to existing services

Q1 summary

- Improved revenue performance, steady reduction in costs
- Continued investment to support sustainable profitable revenue growth
  - new products driving orders from business customers
  - exciting developments in sport, TV and mobile
  - pushing fibre further
  - an improving picture on customer service

Building a strong platform for growth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Q&A


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Appendix

Income statement

£m	Q1 2015/16	YoY change	Key points
Revenue[1]	4,278	(2)%	£48m negative impact from FX £24m reduction in transit revenue
- underlying ex transit		flat	improvement on 1.3% decline in Q4
EBITDA[1]	1,449	1%	
Operating profit[1]	821	5%	depreciation and amortisation down 4%
Profit before tax[1]	694	9%	net finance expense down 9%
EPS[1]	6.7p	3%	number of shares in issue up 6%
Specific items[2]	(51)	(27)%	mainly net interest expense on pensions of £55m

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

Free cash flow

£m	Q1 2015/16	YoY change	Key points
EBITDA[1]	1,449	14	
Capex	(626)	(96)	reflects phasing
Interest	(183)	22	lower net debt
Tax[2]	(88)	45	benefit from large share option maturity in Aug 2014
Working capital & other	(446)	(1)	
Normalised FCF	$\boxed{106}$	(16)	
Cash tax benefit of pension deficit payments	69	50	reflects lump sum deficit payments
Specific items	(52)	28	mainly restructuring costs of £51m
Reported FCF	123	62	

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

Other financial information

Pension

IAS 19, £bn	30 June 15	31 March 15
Liabilities – BTPS	(49.7)	(50.7)
Assets – BTPS	42.8	43.4
Other schemes	(0.3)	(0.3)
Deficit – gross of tax	(7.2)	(7.6)
Deficit – net of tax	(5.8)	(6.1)

- £625m deficit payment to BTPS in April
- despite this, BTPS assets declined due to market conditions, offset by a reduction in liabilities due to a higher real discount rate

Debt and liquidity

- net debt of £5.8bn at 30 June 2015
  - up £0.7bn since 31 March 2015, mainly due to £625m pension deficit payment
  - down c.£1.3bn YoY
- cash & investments of £2.6bn at 30 June 2015
- committed undrawn facilities of >£5bn
  - includes £3.6bn facility for EE acquisition
- £0.5bn bond repaid in Q1
- £0.8bn debt matured in July
  - further £0.3bn repayable in rest of 2015/16

Share buyback

- £189m spent in Q1
- continue to expect to spend c.£300m for the year