



BT Group plc

Q2 2015/16 results

29 October 2015

# 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: our 2015/16 outlook, including growth in revenue, EBITDA and free cash flow; EPS and net debt; cost transformation; investment in our networks; growing dividends and continued share buyback; our investment in and demand for our BT TV and BT Sport offerings, and BT Sport Europe performance; fibre broadband take-up and our investment in fibre rollout.

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**Gavin Patterson, Chief Executive**



# Q2 overview



- ▶ Good financial and operational performance
  - 2% growth in our main revenue measure



- ▶ Continued investment in fibre, with strong market-wide take-up
  - 5m take-up milestone achieved



- ▶ BT Sport Europe doing well
  - contribution ahead of our expectations



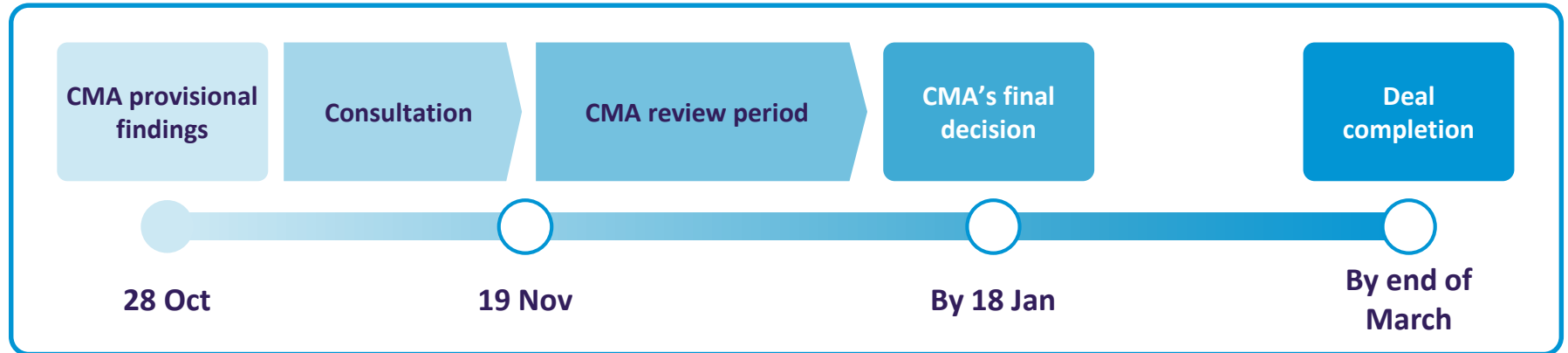
- ▶ On track for full year outlook

# CMA provisional approval of EE transaction

## CMA provisional findings:

- ▶ Provisional approval of the acquisition, without remedies
- ▶ Acquisition is not expected to result in a substantial lessening of competition

- ▶ We are pleased with the provisional approval
- ▶ BT and EE together will be good for the UK
  - providing investment
  - ensuring consumers and businesses benefit from innovation in highly competitive markets













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**Tony Chanmugam, Group Finance Director**



# Q2 results on track for full year outlook

		YoY change	
<b>Revenue<sup>1</sup></b>	£4,381m	flat	
- underlying <sup>2</sup> ex transit		2.0%	
<b>EBITDA<sup>1</sup></b>	£1,442m	(1)%	
<b>EPS<sup>1</sup></b>	6.9p	flat	
<b>Normalised free cash flow<sup>3</sup></b>	£569m	up £36m	
<b>Net debt</b>	£5,919m	down £1,144m	

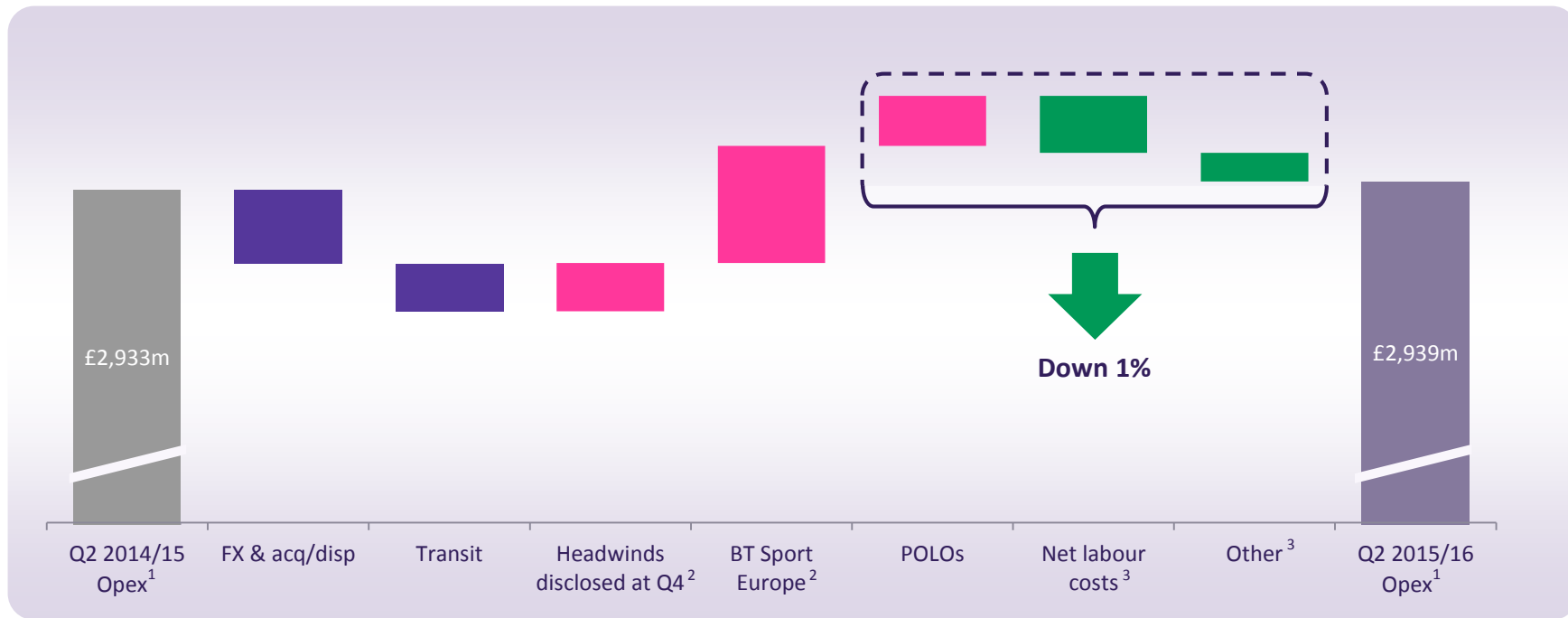
<sup>1</sup> before specific items

<sup>2</sup> excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

<sup>3</sup> before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

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# Operating costs reflect investments for growth



**Underlying opex<sup>1</sup> ex transit up 3%; down 1% ex headwinds disclosed at Q4**

<sup>1</sup> before specific items and depreciation and amortisation

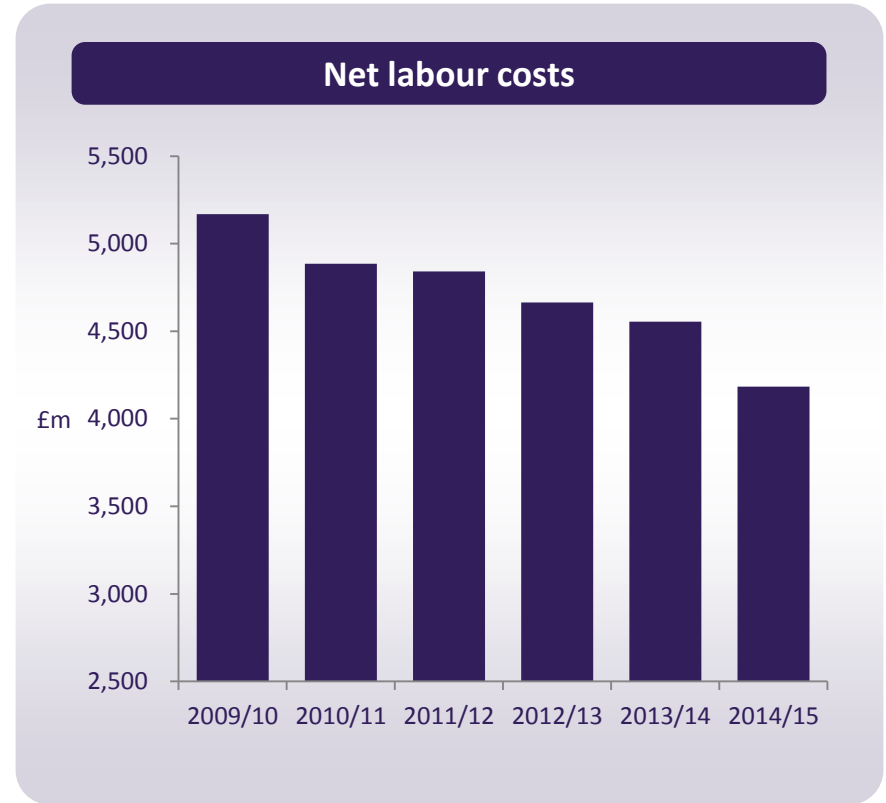
<sup>2</sup> headwinds disclosed at Q4: higher pensions operating charge, higher leaver costs and no benefit this year from the sale of redundant copper; investment in BT Sport Europe

<sup>3</sup> excluding impact of headwinds



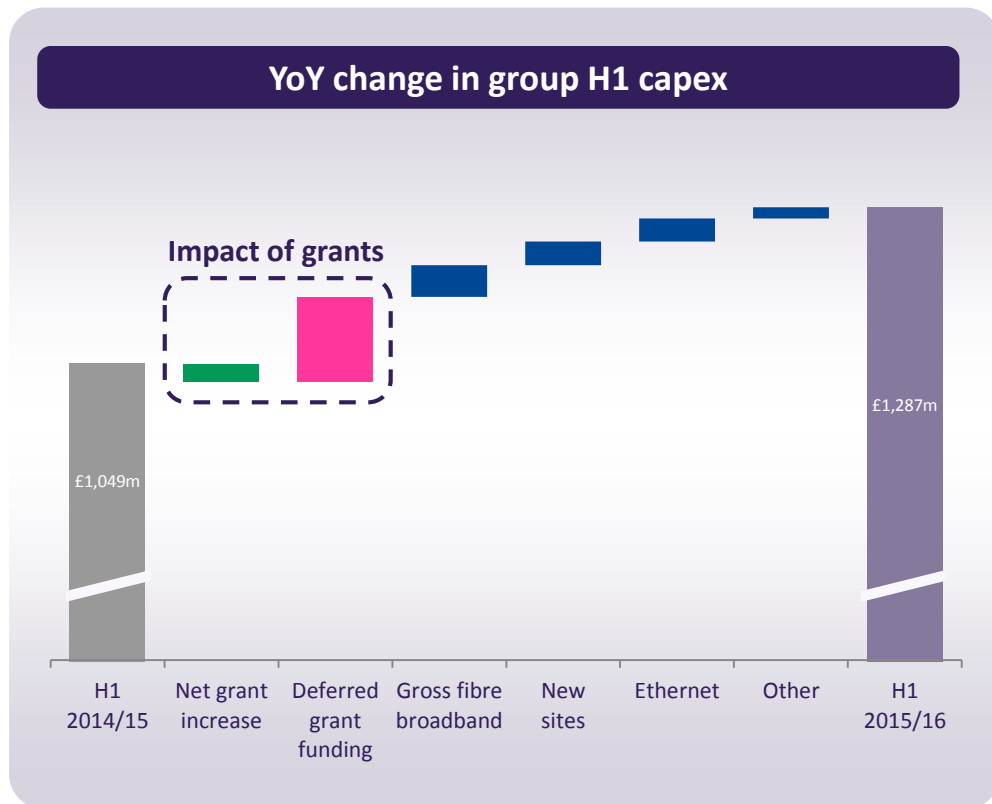
# Cost transformation supporting investment in service

- ▶ Insourcing saves money, protects BT jobs, improves service
  - >13,000 jobs insourced since 2008/09
- ▶ Improving back-office efficiency
  - c.6,000 jobs created in Central Business Services unit in UK & overseas
- ▶ Investing in customer service
  - >1,000 new UK contact centre staff, >80% consumer calls answered in UK by end 2016
  - c.3,000 Openreach engineers hired in last 18 months



# Continued investment in networks

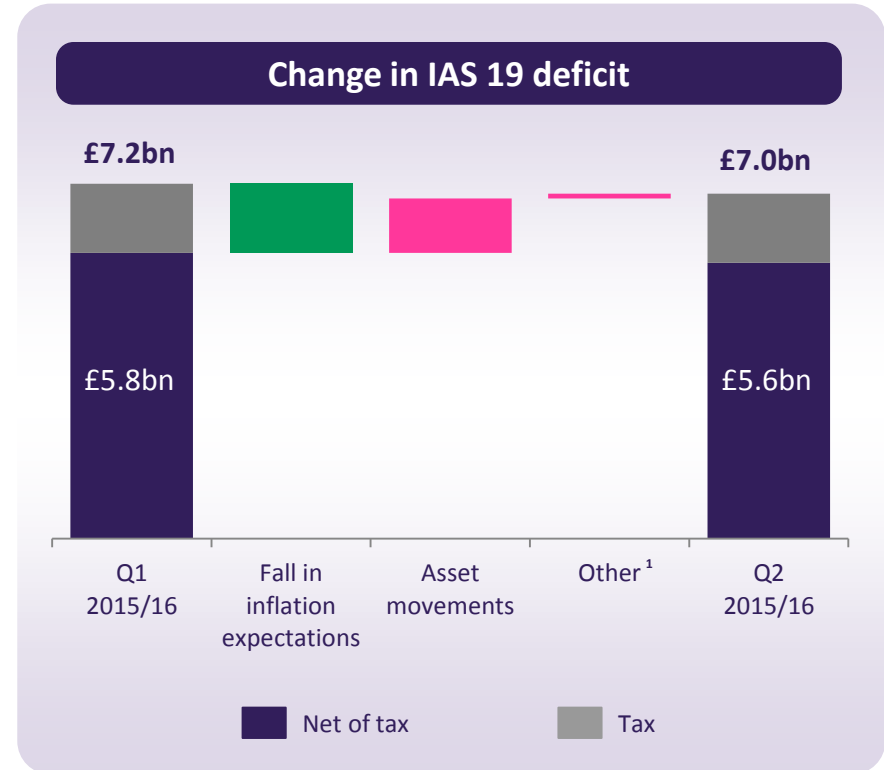
- ▶ Q2 capex £629m, up 18%
  - expansion of fibre network, connecting new sites, Ethernet provision
  - on-track to complete refresh of UK IP core network
- ▶ Total of £157m fibre grant funding now deferred, reflects strong take-up
  - expect vast majority to be re-invested to improve reach and quality of network
- ▶ H1 capex up 10% excluding deferral
  - largely timing in prior year
- ▶ Openreach capex to be higher in 2015/16 than 2014/15



# Pension

- ▶ IAS 19 deficit £5.6bn net of tax (Q1 2015/16: £5.8bn)
- ▶ Reduction in liabilities due to lower future inflation expectations
- ▶ Largely offset by decline in asset values due to market conditions

IAS 19, £bn	30 June 15	30 September 15
Liabilities – BTPS	(49.7)	(48.2)
Assets – BTPS	42.8	41.5
Other schemes	(0.3)	(0.3)
Deficit – gross of tax	(7.2)	(7.0)
Deficit – net of tax	(5.8)	(5.6)



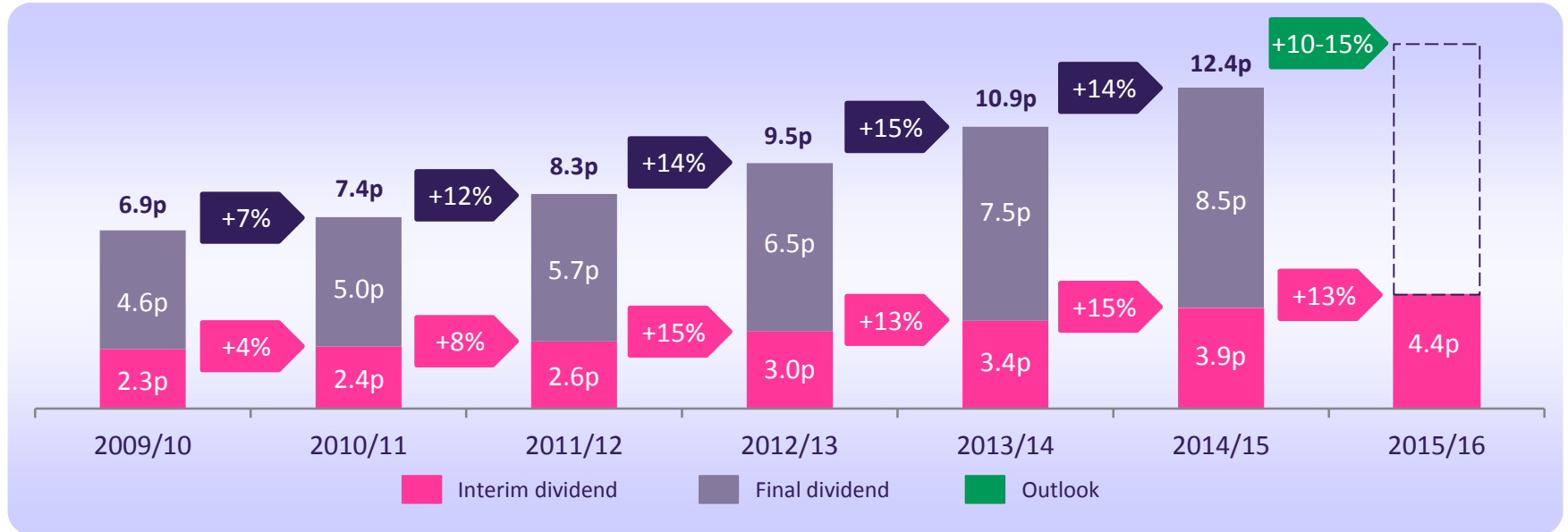
BTPS – BT Pension Scheme

<sup>1</sup> includes service cost, regular contributions and interest on deficit

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# Shareholder returns

## Dividend per share



### ► Share buyback

- £61m spent in Q2, £250m year to date
- continue to expect to spend c.£300m for the year

# 2015/16 outlook<sup>1</sup> unchanged

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**Underlying revenue<sup>2</sup> ex transit**

Growth

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**EBITDA<sup>3</sup>**

Modest growth

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**Normalised free cash flow<sup>4</sup>**

Around £2.8bn

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<sup>1</sup> standalone BT, excluding any impact of planned EE acquisition

<sup>2</sup> excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

<sup>3</sup> before specific items

<sup>4</sup> before specific items, pension deficit payments and the cash tax benefit of pension deficit payments



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**Gavin Patterson, Chief Executive**

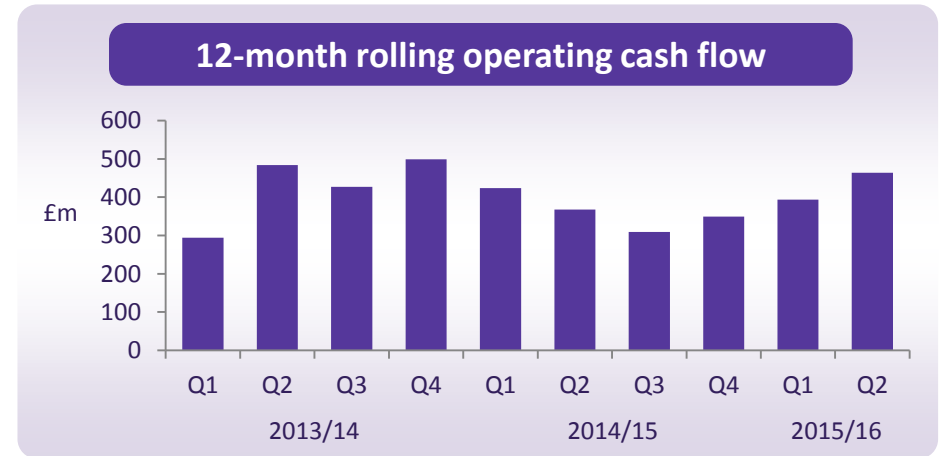




# Global Services – a better performance

- ▶ Underlying revenue ex transit down 2%
  - improvement on recent quarters
  - strong in continental Europe, up 12%; Q1 up 2%
  - UK down 8%; Q1 down 12%
- ▶ Underlying operating costs ex transit down 2%
- ▶ EBITDA down 3% ex FX
  - major health programmes moved into service and maintenance phase end of last year
  - leaver costs of £5m (Q2 2014/15: £nil)
- ▶ Expect H2 EBITDA to grow
- ▶ Steady improvement in operating cash flow
  - £78m better YoY
- ▶ New products launched
  - cloud-based services
- ▶ Good order intake, up 36%
  - 12-month rolling up 16%

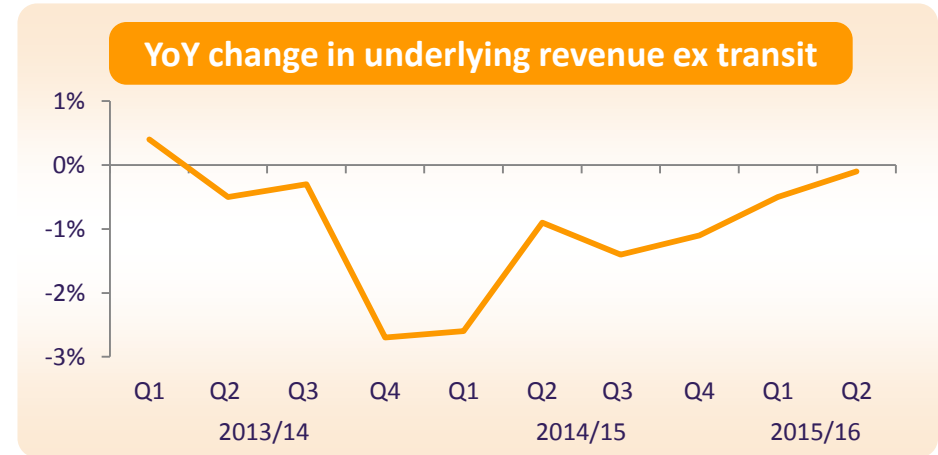
	Q2 2015/16	YoY change
Revenue	£1,559m	(5)%
- u/l ex transit		(2)%
EBITDA	£216m	(4)%



# Business – steady financial performance

- ▶ Underlying revenue ex transit flat
  - improvement on recent quarters, voice down just 1%
  - another good quarter from BT Ireland, up 14%
  - data & networking up 3%
  - IT services down 4%
- ▶ IP lines grew 49%
  - driven by BT Cloud Voice and BT Cloud Phone
  - helping to offset decline in PSTN lines
- ▶ Underlying operating costs ex transit down 1%
- ▶ EBITDA up 1%
- ▶ Operating cash flow down 7%
  - working capital timing
- ▶ Good order intake, up 16%
  - 12-month rolling up 1%

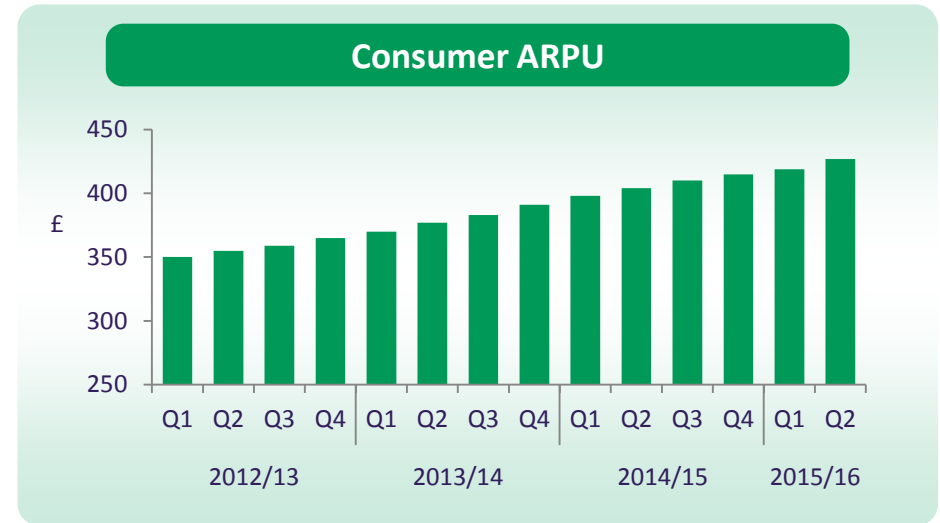
	Q2 2015/16	YoY change
Revenue	£781m	(1)%
- u/l ex transit		flat
EBITDA	£261m	1%



# Consumer – strong quarter, defined by BT Sport Europe

- ▶ Revenue up 7%
  - broadband and TV up 17%
  - ARPU up 6% to £427
- ▶ EBITDA down 10%
  - launch costs of BT Sport Europe and AMC
- ▶ Operating cash flow of £53m, down 50%
  - timing of rights payments
- ▶ Now have >200,000 BT Mobile customers
- ▶ 52,000 consumer line loss
  - second best in over 5 years
- ▶ 82,000 retail broadband net adds<sup>1</sup>
  - 51% of market<sup>2</sup> growth
  - 212,000 retail fibre net adds

	Q2 2015/16	YoY change
Revenue	£1,127m	7%
EBITDA	£202m	(10)%



<sup>1</sup> includes business customers

<sup>2</sup> DSL & fibre

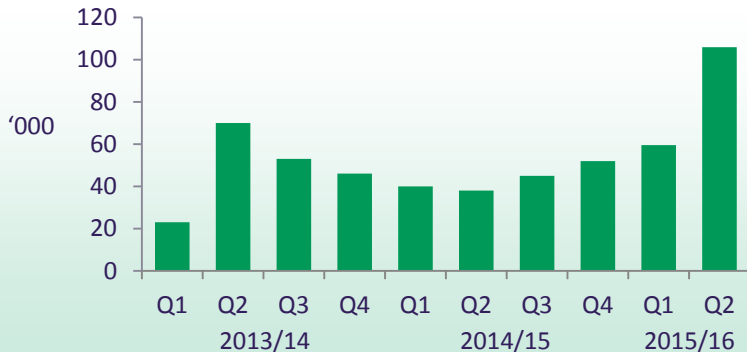
# Consumer – best-ever BT TV net additions

## BT TV

- ▶ 106,000 customers added in quarter
- ▶ Continuing to enhance offering
  - AMC channel launched; >1/3 of potential audience has viewed channel
  - BT TV now includes all UKTV channels
  - 182 channels in total



## BT TV net adds



## BT Sport

- ▶ Average daily viewing up 47%
  - Premier League viewing continues to grow YoY
  - MotoGP race viewing up 56%
- ▶ Australian home cricket rights for 2016-21
  - includes the 2017/18 Ashes series against England

- ▶ BT Sport Europe launched on 1 August



- majority of consumer and commercial customers taking the full range of channels
- Q2 contribution ahead of our expectations

- ▶ Launch of **BT Sport ULTRA HD**

- ▶ BT Sport app relaunched

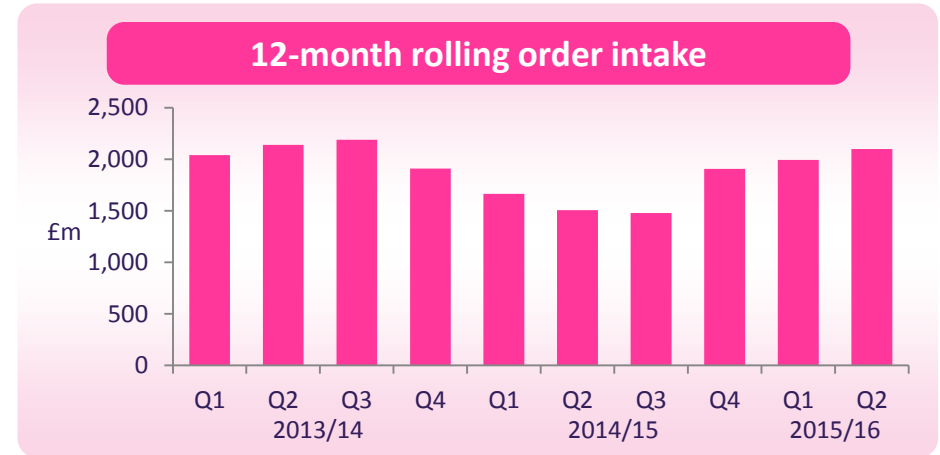


- unique monthly visits up 30%

# Wholesale – good performance

- ▶ Underlying revenue ex transit up 3%
  - good growth in IP services, up 22%
  - Ethernet orders second highest ever
  - IP Exchange minutes up 23%
- ▶ Underlying operating costs ex transit up 4%
  - higher volumes in IP services
  - partly offset by a 15% decline in SG&A costs
- ▶ EBITDA up 2%
- ▶ Operating cash flow of £63m, up £3m YoY
- ▶ Order intake £349m, up 40%
  - 12-month rolling up 39%
- ▶ Strong take-up of Wholesale FTTC

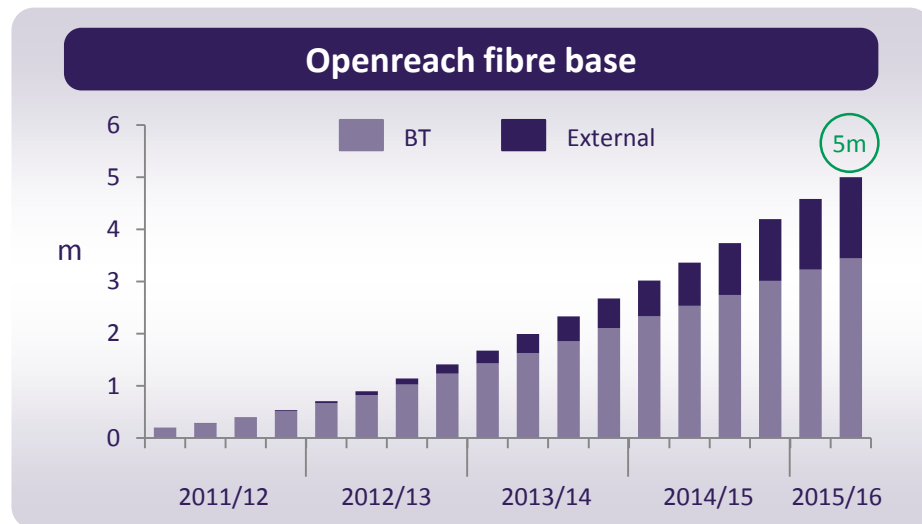
	Q2 2015/16	YoY change
Revenue	£520m	(2)%
- u/l ex transit		3%
EBITDA	£127m	2%



# Openreach – strong fibre progress

- ▶ Revenue up 2%
  - 38% growth in fibre broadband
  - partly offset by c.£30m impact from regulation
- ▶ Operating costs flat
- ▶ EBITDA up 3%
- ▶ Capital expenditure up 41%
  - fibre broadband, new homes and Ethernet
- ▶ Operating cash flow of £329m, down 3%
- ▶ Physical line base up 7,000
  - up 188,000 over past 12 months
- ▶ 415,000 net fibre connections, up 21%
  - 5m premises connected, 21% of those passed

	Q2 2015/16	YoY change
Revenue	£1,267m	2%
EBITDA	£648m	3%



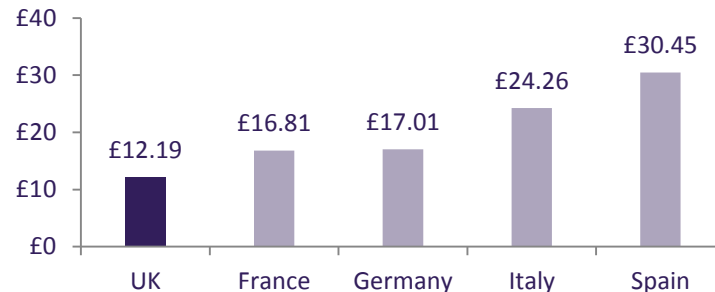


# Ofcom's Strategic Review of Digital Communications

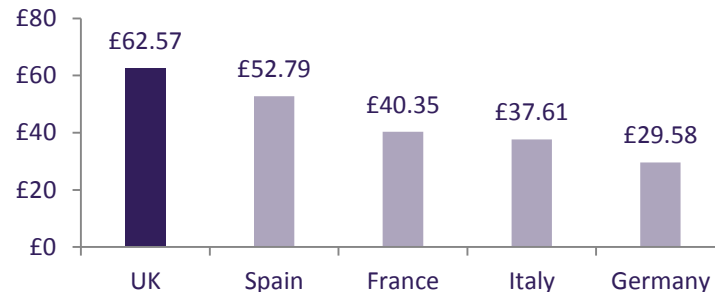
## What do we want from the review?

- ▶ Certainty
  - regulatory timescales aligned to network investment horizon
- ▶ Clarity
  - a simple and robust framework
- ▶ Fairness
  - companies able to generate an appropriate return on investment
  - Ofcom should look at pay-TV market

## Broadband pricing<sup>1</sup>



## Pay-TV pricing<sup>1</sup>

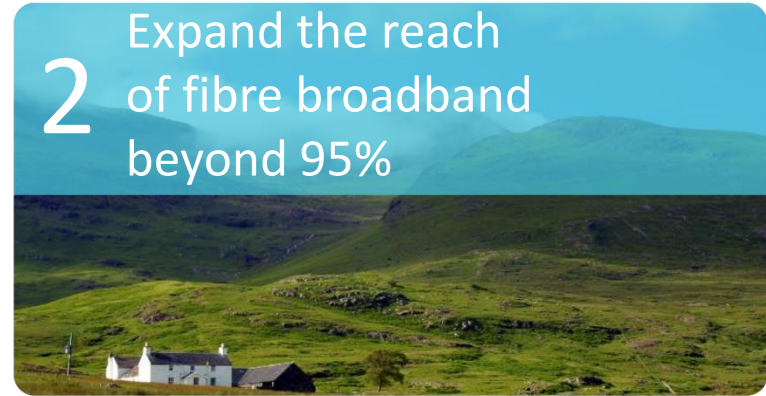
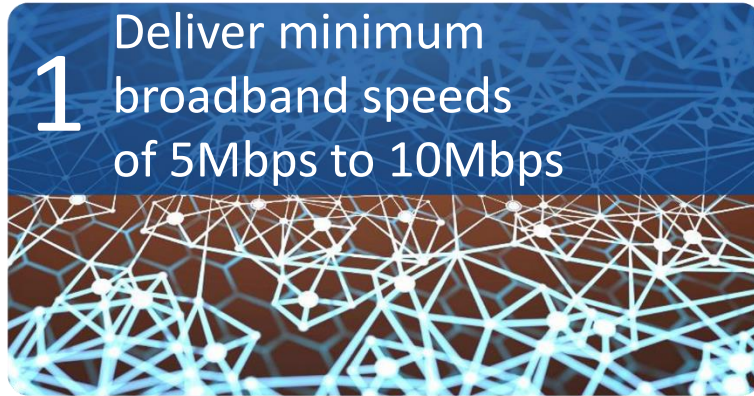


<sup>1</sup> Monthly prices in the 'Big 5' European economies; source: Ofcom International Communications Market Report, December 2014

Broadband: Comparative stand-alone 'lowest available' fixed-line broadband pricing; family household with multiple needs

Pay-TV: Premium pay-TV with HD and PVR

# Four pledges to support the UK's digital future



# Q2 summary

- ▶ Good financial performance
  - better revenue performance; ongoing cost focus
- ▶ Operational trends show our strategy is working
  - growth in TV, sport and mobile; innovative business products driving orders
- ▶ Improving service is a priority
  - making good progress
- ▶ Fibre going from strength to strength
- ▶ We stand ready to invest further to shape the UK's digital future

Investing in a strong platform for growth



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**Q&A**







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## Appendix



# Income statement

£m	Q2 2015/16	YoY change	Key points
<b>Revenue<sup>1</sup></b>	4,381	flat	<ul style="list-style-type: none"> <li>▶ £53m negative impact from FX</li> <li>▶ £33m reduction in transit revenue</li> </ul>
- underlying ex transit		2.0%	▶ driven by Consumer, Openreach and Wholesale
<b>EBITDA<sup>1</sup></b>	1,442	(1)%	▶ decline reflects UEFA launch costs
<b>Operating profit<sup>1</sup></b>	819	(2)%	▶ depreciation and amortisation up 1%
<b>Profit before tax<sup>1</sup></b>	706	2%	▶ net finance expense down 22%
<b>EPS<sup>1</sup></b>	6.9p	flat	▶ average number of shares in issue up 4%
<b>Specific items<sup>2</sup></b>	(52)	(51)%	▶ mainly net interest expense on pensions of £56m

<sup>1</sup> before specific items

<sup>2</sup> net charge after tax

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# Free cash flow

£m	Q2 2015/16	YoY change	Key points
<b>EBITDA<sup>1</sup></b>	1,442	(8)	
Capex	(595)	(74)	▶ increase in fibre roll-out, connecting new homes, higher volumes of Ethernet provision
Interest	(65)	22	▶ lower net debt
Tax <sup>2</sup>	(91)	45	▶ benefit from large share option maturity in Aug 2014
Working capital & other	(122)	51	
<b>Normalised FCF</b>	<b>569</b>	<b>36</b>	
Cash tax benefit of pension deficit payments	46	27	▶ reflects lump sum deficit payments
Specific items	(30)	45	▶ mainly £14m restructuring costs, £8m EE acquisition-related costs
<b>Reported FCF</b>	<b>585</b>	<b>108</b>	

<sup>1</sup> before specific items

<sup>2</sup> before cash tax benefit of pension deficit payments

# Debt and Liquidity

- ▶ Net debt of £5.9bn
  - up £100m since 30 June 2015
- ▶ Cash & investments of £1.8bn
- ▶ £0.8bn debt matured in July
  - further £0.4bn repayable in rest of 2015/16
- ▶ Committed undrawn facilities of >£5bn
  - includes £3.6bn facility for planned EE acquisition