



BT GROUP Q3 2019/20

MEDIA CALL

PHILIP JANSEN SCRIPT

Morning everyone and thank you for joining me and Simon.

Today marks one year since I joined the first of these results calls. It has been a very busy twelve months and we're now entering a critical year for both BT and the country.

Delivering on Boris's bold broadband for Britain plan needs to be a team sport with Government, Ofcom and industry working together to solve big issues. The last 12 months has seen a big shift in tone from all parties ahead of this once-in-a-generation technological shift to full fibre broadband and 5G mobile. To make this happen is going to take a Herculean collaborative effort.

We have come a long way down the road towards being ready to confirm and potentially expand our FTTP network build ambitions. But this is a crunch year and some of the decisions to be made by the Treasury, DCMS, Ofcom and the industry in the near-term will leave a huge mark on the country's economic prosperity for the next 20 years and beyond.

I will talk in more detail about our response to the recent Ofcom consultation and the other enablers but first I'll run through our financial performance.

I am pleased with our overall progress. While markets remain competitive and our financial performance for the quarter was slightly below our expectations, we remain on track to deliver our outlook for the full year.

For the nine months-to-date:



- Revenue was down 2% at £17.2bn;
- EBITDA was down 3% at £5.9bn;
- So far this year we've invested £2.9bn in capex, ahead of the equivalent figure for last year of £2.8bn; and
- Normalised free cashflow of £1bn was down due to increased capex and the deposit paid to secure the UEFA club football rights.

To call out a few operational highlights during the quarter: we launched Halo, our best ever converged connectivity package; as announced earlier this week we've completed the on-shoring of customer service calls to the UK and Ireland; and we launched Skills for Tomorrow, which will reach 10 million people with digital skills training by 2025. In addition, we will launch Sky's NOW TV service to BT TV customers before the end of Q4. These initiatives are about setting up a better BT for our customers and our future success.

As I have said, one of the biggest opportunities facing this business is FTTP and the expansion of our 5G mobile network. During the quarter we continued to expand our 5G network and we're now present in 50 locations across the country.

On Tuesday, the Government made clear its position on the future use of certain vendors in the UK's telecoms networks, limiting them to 35% of 5G and FTTP access networks and prohibiting their use in core networks.

As you know, the security of our network is paramount for BT and we are very supportive of what the Government is doing here. We already have a long-standing principle to not use Huawei in our core networks. What was announced was an important clarification about the use of vendors in both fixed and mobile networks and allows us to plan with certainty for the future. As the guidance is developed into legislation there will be an impact on our 5G rollout plans and the equipment used in our FTTP network build. We are in the process of reviewing the guidance in detail to determine the full impact on our plans. At this time we estimate an impact of around £500 million over the next 5 years.



On FTTP, we remain on track to meet our target of passing 4 million premises by March 2021 and Openreach has accelerated their build rate to around 26,000 premises a week. We've now passed 2.2 million premises nationally.

At the start of the month Ofcom published a consultation document on its approach to regulation from 2021-2026. Broadly speaking, we welcomed the direction of the consultation document and we will be submitting a formal response in time for the deadline in April.

There are now three principal questions that will dictate this digital infrastructure investment environment:

The first is clarity from Ofcom on the so-called 'fair bet', in other words we need clarity on the rate of return we will be allowed to make on our investment and over what timeframe.

Secondly, a decision by HM Treasury on whether they will provide a long-term exemption on business rates for new FTTP in England and Wales. A 20-year exemption is worth around £1 billion to BT, equivalent to passing an additional 3 million premises with full fibre. Given the importance that this Government has placed on building fibre at pace across the whole of the UK, we would encourage them to commit to this in the March budget.

Lastly, there is a question over Openreach's ability to do long-term deals with communications providers. Openreach and its major customers want to sign up to arrangements which will guarantee investment and the provision of service over long-term time horizons. However, the proposed regulation caps our ability to sign contracts longer than five years – a constraint that is not applied to any other network builders.

Earlier this month I attended a roundtable for industry CEOs with the Culture Secretary and the Prime Minister to discuss the national fibre build ambitions, and there is a clear sense of positive momentum and intent. But fibring up the UK will require us all to move fast and we're running out of time if the industry is going to meet the Government's ambition.



Looking at progress made on our modernisation programme during the quarter: We are on track with our phase one transformation programme, to deliver a gross benefit of £1.5bn of annual savings by March 2021. As you know, we are now doing a lot of work on the next phase of transformation which includes system, process and product simplification.

There are 58 IT stacks within BT and I'm sure you'll understand this is way too many. We will be simplifying and consolidating these systems over the next few years, connecting the data we hold and ensuring they all talk to each other. This is about making life easier for our people so that we can radically improve our customer service.

We made a good start last year on our Better Workplace Programme, which will improve BT's UK footprint of more than 300, to around 30 modern, future-fit locations. We've now started to announce sites for consolidation to reduce our overall property footprint, which will see us start to realise the benefits of this programme. This will accelerate as our new office estate begins to come online later this year and into 2021.

So, in summary, I feel we have made a lot of progress over the last 12 months. 2020, however, is going to be a critical year for both BT and the country.

Giving this country the connectivity it needs is a national mission. We simply cannot allow bureaucracy to get in the way of progress – we need full fibre, not red tape.

Most importantly, we need to get on with it NOW. We *have* to find ways of cutting through the corporate calendar, the legislative timetable, the regulatory schedule. This is about our country's future economic prosperity – so let's get together and let's get on with it.

I'll now ask the operator to open the call for questions.
