

A better business



A better future

BT Group plc

Q2 2013 results

1 November 2012

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: current and future years' outlook, including revenue trends, EBITDA and normalised free cash flow; the impact of regulation; continuing cost transformation in our BT Global Services business; progressive dividends; our fibre roll-out programme; effective tax rate; and liquidity and funding.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services, and demand for bundled services, not being realised; the timing of entry and profitability of BT in certain communications markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the BT Global Services restructuring programme not being achieved; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

A better business



A better future

BT Group plc

Ian Livingston, Chief Executive

Q2 2013 group results¹

Revenue	£4,474m	(9%)	▼
- underlying ex transit		(5%)	▼
<hr/>			
EBITDA	£1,497m	flat	➤
<hr/>			
EPS	6.0p	7%	▲
<hr/>			
Normalised² free cash flow	£316m	£(247)m	▼
<hr/>			
Interim dividend	3.0p	15%	▲
<hr/>			

¹ before specific items

² before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

Q2 2013 revenue¹

- ▶ Retail, Wholesale and Openreach performing to expectations
- ▶ Tough conditions for Global Services
- ▶ Expect improved trend for H2

YoY % change	2013	
	Q1	Q2
Revenue	(5.9%)	(8.6%)
FX, disposals & transit	2.7%	3.1%
Underlying revenue ex transit	(3.2%)	(5.5%)
Q2 2012 accelerated GS milestones		1.4%
Ladder pricing		0.5%
	(3.2%)	(3.6%)

Q2 2013 EBITDA¹

YoY % change	2013	
	Q1	Q2
EBITDA	1.9%	0.1%
FX, disposals & transit	0.8%	0.8%
Underlying EBITDA ex transit	2.7%	0.9%
Q2 2012 accelerated GS milestones		0.8%
Ladder pricing		1.5%
	2.7%	3.2%

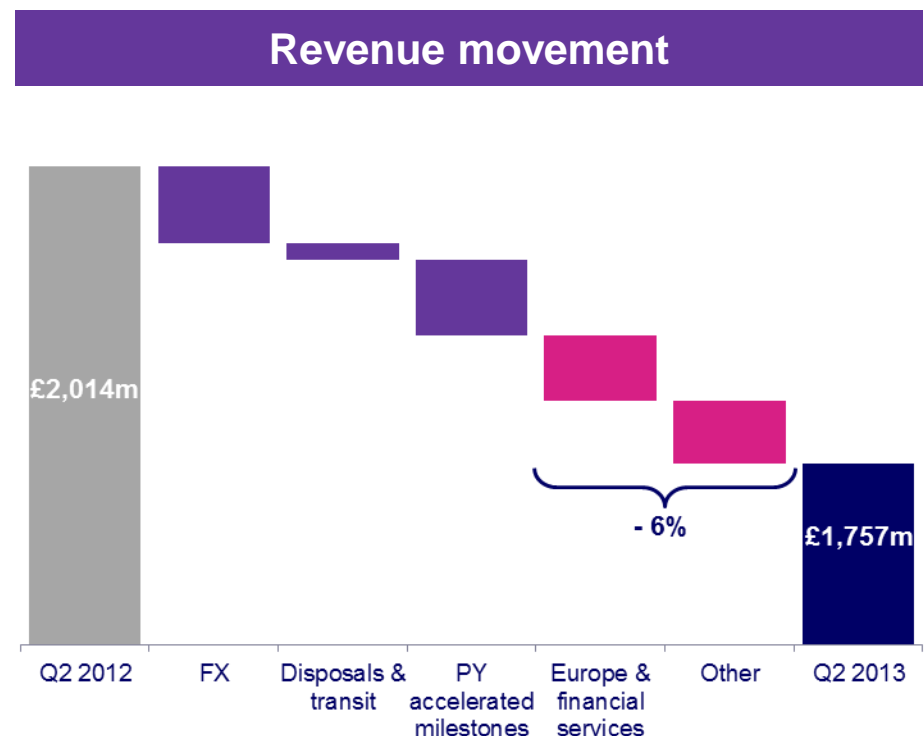
Q2 2013 line of business overview

Global Services

	Q2 2013	Change
Revenue	£1,757m	(13%)
- underlying revenue ex transit		(9%)
EBITDA	£130m	(18%)

- ▶ Underlying revenue ex transit & PY accelerated milestones down 6%
 - in line with Q1
 - tough conditions in Europe and financial services sector
 - c.10% growth in high-growth regions¹

- ▶ Order intake £1.3bn (Q1 2013: £1.1bn, Q2 2012: £1.4bn)



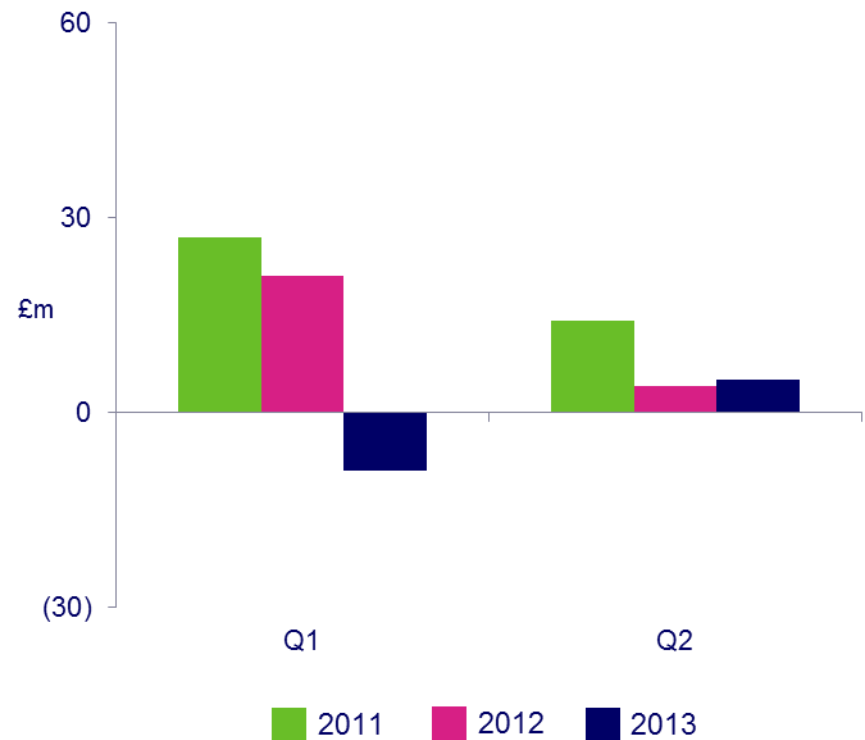
7 ¹ Asia Pacific, Latin America, Middle East, Africa & Turkey

Q2 2013 line of business overview

Global Services

- ▶ Underlying operating costs ex transit down 9%
 - down 6% ex PY accelerated milestones
- ▶ 12% decline in underlying EBITDA
 - down 5% ex PY accelerated milestones
- ▶ EBITDA up sequentially on Q1
- ▶ Cash flow down by £116m
 - working capital outflow
- ▶ Q2 EBITDA less capex similar to last 2 years
- ▶ Luis Alvarez appointed CEO

EBITDA less capex

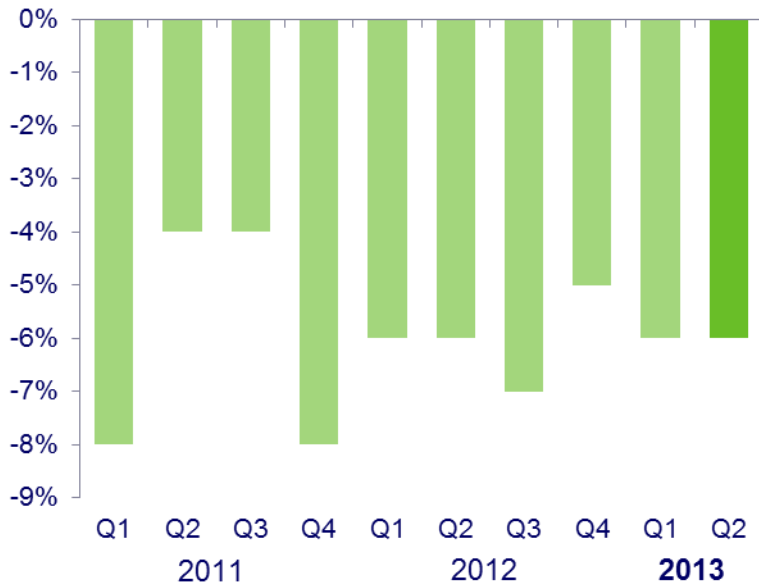


Q2 2013 line of business overview

Retail

	Q2 2013	Change
Revenue	£1,791m	(3%)
EBITDA	£474m	7%

YoY movement in operating costs



- ▶ Net operating costs down 6%

Consumer

- ▶ Consumer revenue down 3%
 - lower calls & lines revenue
 - growth in broadband, driven by fibre
- ▶ 47% share of broadband¹ net adds
- ▶ Retail fibre net adds c.160,000
 - now >875,000 customers
- ▶ Consumer ARPU up £5 QoQ to £355
- ▶ 21,000 BT Vision net adds

Building great content

Football



Rugby Union



Building a great team

Jake Humphrey

- ▶ Anchor for Premier League coverage
- ▶ Previously BBC Sport, hosting Formula 1, Euro 2012 and London 2012

Jamie Hindhaugh

- ▶ Chief Operating Officer, BT Sport
- ▶ Previously BBC Head of Production, London 2012

Simon Green

- ▶ Director, BT Sport
- ▶ Previously CEO, BoxNation
- ▶ Held senior position at Sky Sports

Grant Best

- ▶ Executive Producer, BT Sport
- ▶ Previously director at Sky Sports and ESPN
- ▶ Won Sports Emmy for work on 2010 FIFA World Cup

Q2 2013 line of business overview

Retail

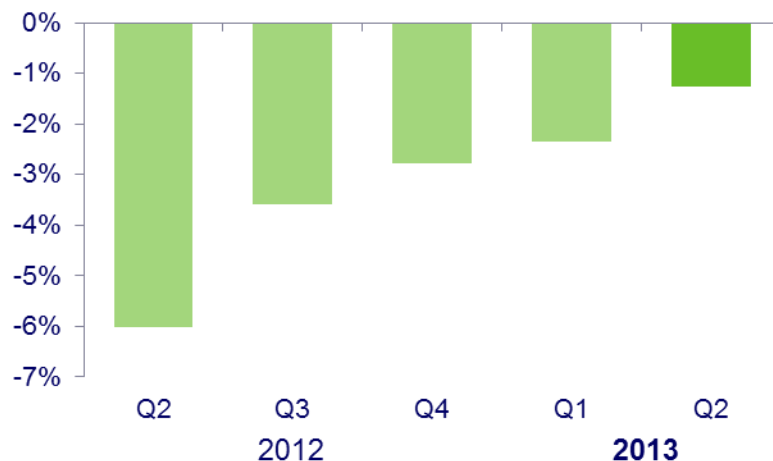
Business

- ▶ Business revenue down 3%
 - withdrawal from low-margin trade sales
 - SME market remains tough
 - improved performance in networked IT services division, BT iNet
 - improved calls & lines revenue trend

Ireland

- ▶ Revenue up 1% ex FX
- ▶ Large wholesale deal to provide voice and broadband to Sky in RoI
- ▶ Over 90% fibre coverage in NI
 - now >100,000 premises connected

YoY change in BTB revenue ex trade sales



Q2 2013 line of business overview

Retail – Enterprises

- ▶ Enterprises revenue down 2%
 - decline in BT Directories and BT Redcare
- ▶ BT Wi-fi minutes trebled to 3bn
- ▶ BT Conferencing
 - strong growth in Europe and Asia Pacific
 - US weaker
- ▶ Next generation of conferencing
 - technology partnership with Dolby Laboratories Inc.
 - makes audio conference calls more effective
 - creates impression that sounds are coming from unique points
 - clear differentiation of our conferencing service
 - launch expected in Q1 next financial year



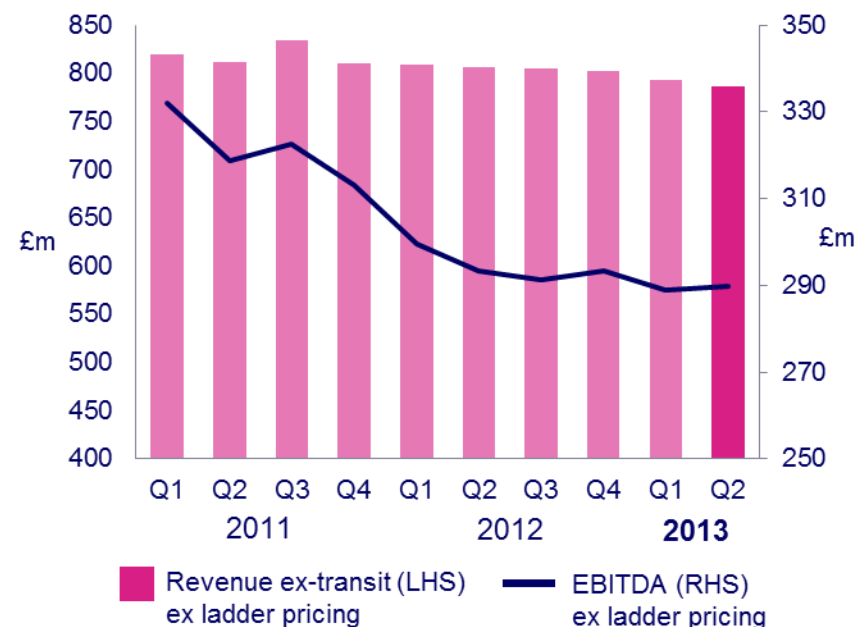
Q2 2013 line of business overview

Wholesale

	Q2 2013	Change
Revenue	£861m	(12%)
- underlying revenue ex transit		(5%)
EBITDA	£280m	(8%)

- ▶ Excluding ladder pricing
 - underlying revenue ex transit down 2%
 - EBITDA down 1%
- ▶ Net operating costs ex transit down 3%
 - SG&A down 22%
- ▶ IP Exchange minutes up nearly 90%
- ▶ Order intake c.£300m
- ▶ Extended relationship with EE to underpin 4G services

Revenue & EBITDA ex ladder pricing¹



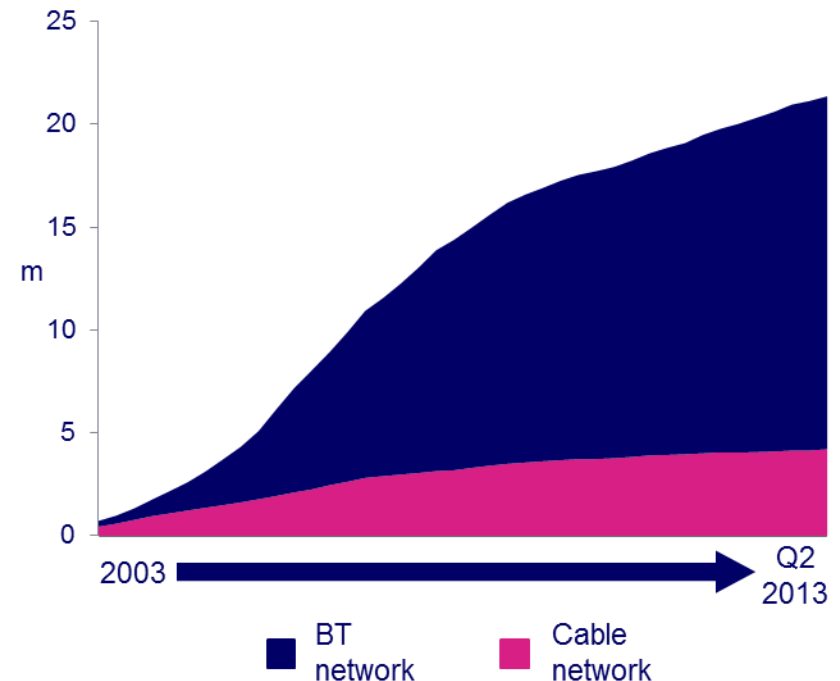
Q2 2013 line of business overview

Openreach

	Q2 2013	Change
Revenue	£1,269m	(1%)
EBITDA	£582m	3%

- ▶ Growth in Ethernet and fibre
- ▶ Impact of regulatory price changes
- ▶ Net operating costs down 4%
 - despite significant additional costs due to adverse weather
- ▶ 38,000 reduction in physical lines
 - more repair activity
 - increase in provision lead times
- ▶ 174,000 broadband¹ net adds

Total UK broadband customers²



Fibre roll-out

- ▶ >12m premises now passed
- ▶ Now expect to pass two-thirds of UK premises during spring 2014
 - >18 months ahead of original schedule
- ▶ Take-up encouraging
 - >950,000 fibre customers connected
 - >10% penetration in first 5 phases of roll-out
- ▶ BDUK progress
 - 5 BDUK bids won to date
 - Surrey and North Yorkshire signed in quarter
 - North Yorkshire - first customers to be connected within 6 months of signing contract
 - preferred bidder
 - Cumbria, Norfolk and Suffolk awarded in Q2
 - Devon & Somerset awarded in October

London 2012



- ▶ Communications provided to 94 venues
- ▶ All contractual milestones successfully delivered on time or ahead of schedule
- ▶ 7x the bandwidth of the Beijing Games
- ▶ Olympic Park was largest high-density public wi-fi installation in the world
- ▶ >1m attended BT London Live during the Games
- ▶ BT was the most recognised London 2012 partner¹



Summary

- ▶ Another solid quarter of earnings growth despite
 - economic conditions in Europe
 - regulatory impacts
- ▶ Strong delivery on cost efficiencies
- ▶ Investing in future of the business
- ▶ Good progress in most lines of business
 - more we can do in Global Services

A better business



A better future

BT Group plc

Tony Chanmugam, Group Finance Director

Impact of ladder pricing

- ▶ August 2011: CAT finds in favour of ladder pricing
- ▶ July 2012: Court of Appeal overrules CAT judgment
- ▶ Seeking leave to appeal Court of Appeal decision

£m	2011	2012	2013	
	FY	FY	Q1	FY previously expected
Revenue	29	56	24	c.110
- transit	-	27	13	c.50
- non-transit	29	29	11	c.60
EBITDA	29	29	11	c.60
Cash	-	63		c.60

Impact in Q2

Specific item charge

Reversed

Q2 2013 income statement¹

£m	Q2 2013	Change	Key points
Revenue	4,474	(9%)	<ul style="list-style-type: none"> ▶ transit down £79m ▶ £74m negative FX impact
- underlying ex transit		(5%)	<ul style="list-style-type: none"> ▶ 1.9ppt due to ladder pricing & PY accelerated milestones ▶ macro conditions, regulatory price reductions, lower calls & lines revenue
EBITDA	1,497	flat	<ul style="list-style-type: none"> ▶ underlying ex ladder pricing & PY accelerated milestones up 3% ▶ underlying costs down 10%
Operating profit	775	4%	▶ lower depreciation
Profit before tax	608	7%	▶ lower net finance expense
Tax	(138)	flat	▶ 22.7% effective tax rate
EPS	6.0p	7%	

Q2 2013 specific items

£m	Q2 2013	Key points
Revenue	(85)	▶ ladder pricing in 2011 & 2012
Operating costs	(50)	▶ ladder pricing (£27m credit), provision for claims (£43m), OnLive impairment (£17m), GS restructuring (£17m)
Net finance income	8	▶ net interest on pensions
Profit on disposal of interest in associate	121	▶ disposal of 14.1% interest in Tech Mahindra
Net charge before tax	(6)	
Tax	101	▶ tax credit on specific items (£23m), deferred tax impact of tax rate change (£78m credit)
Net credit after tax	95	

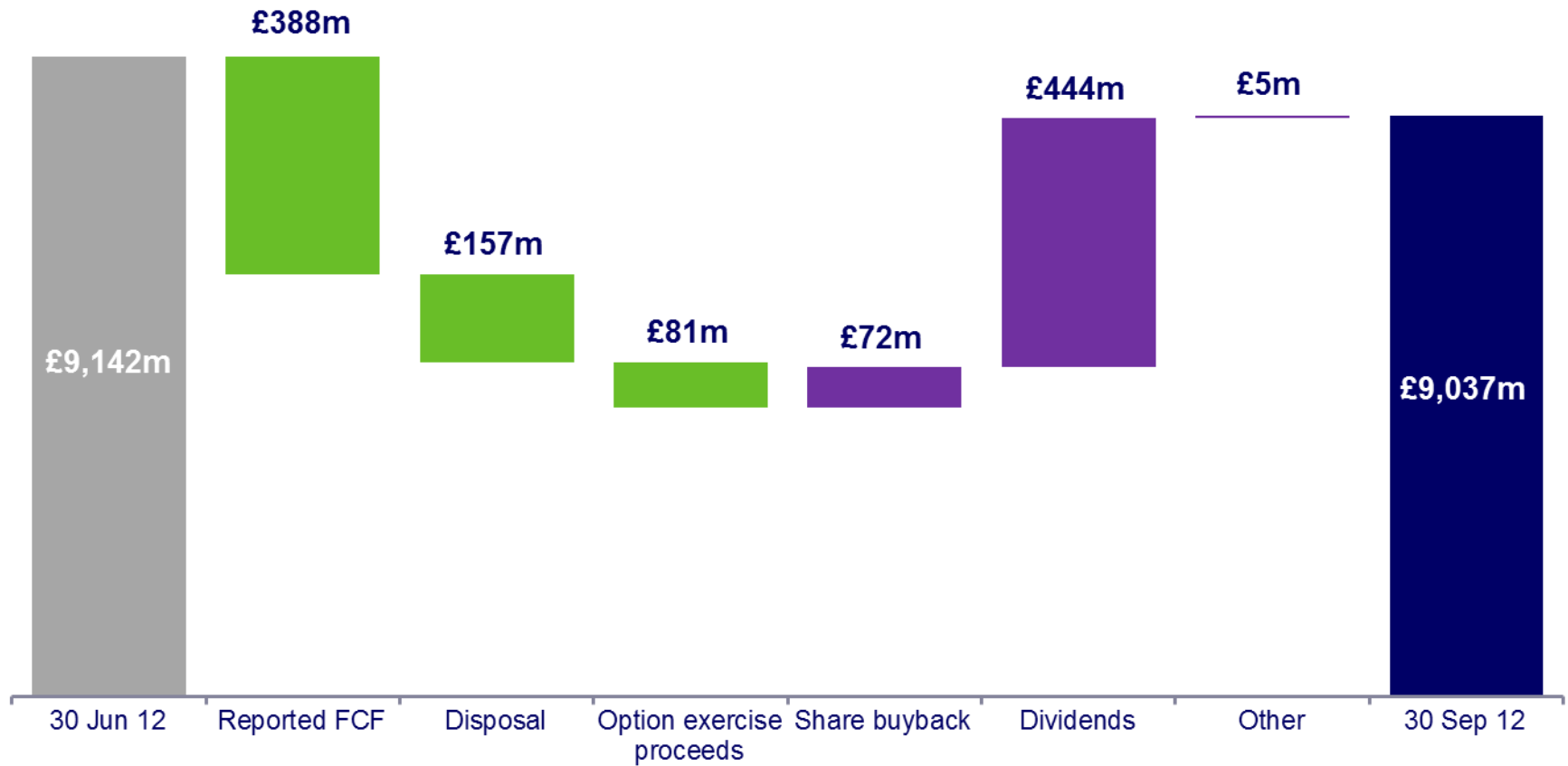
Q2 2013 free cash flow

£m	Q2 2013	Change	Key points
EBITDA¹	1,497	2	
Capex	(619)	(1)	
Interest	(129)	2	
Tax	(181)	(37)	▶ higher taxable profits
Working capital & other	(252)	(213)	▶ customer billing & receipts
Normalised² FCF	316	(247)	
Cash tax benefit of pension deficit payments	162	54	▶ relating to £2bn pension payment in March
Adjusted¹ FCF	478	(193)	
Specific items	(90)	(48)	▶ ladder pricing in 2011 & 2012 ▶ GS restructuring & property rationalisation
Reported FCF	388	(241)	

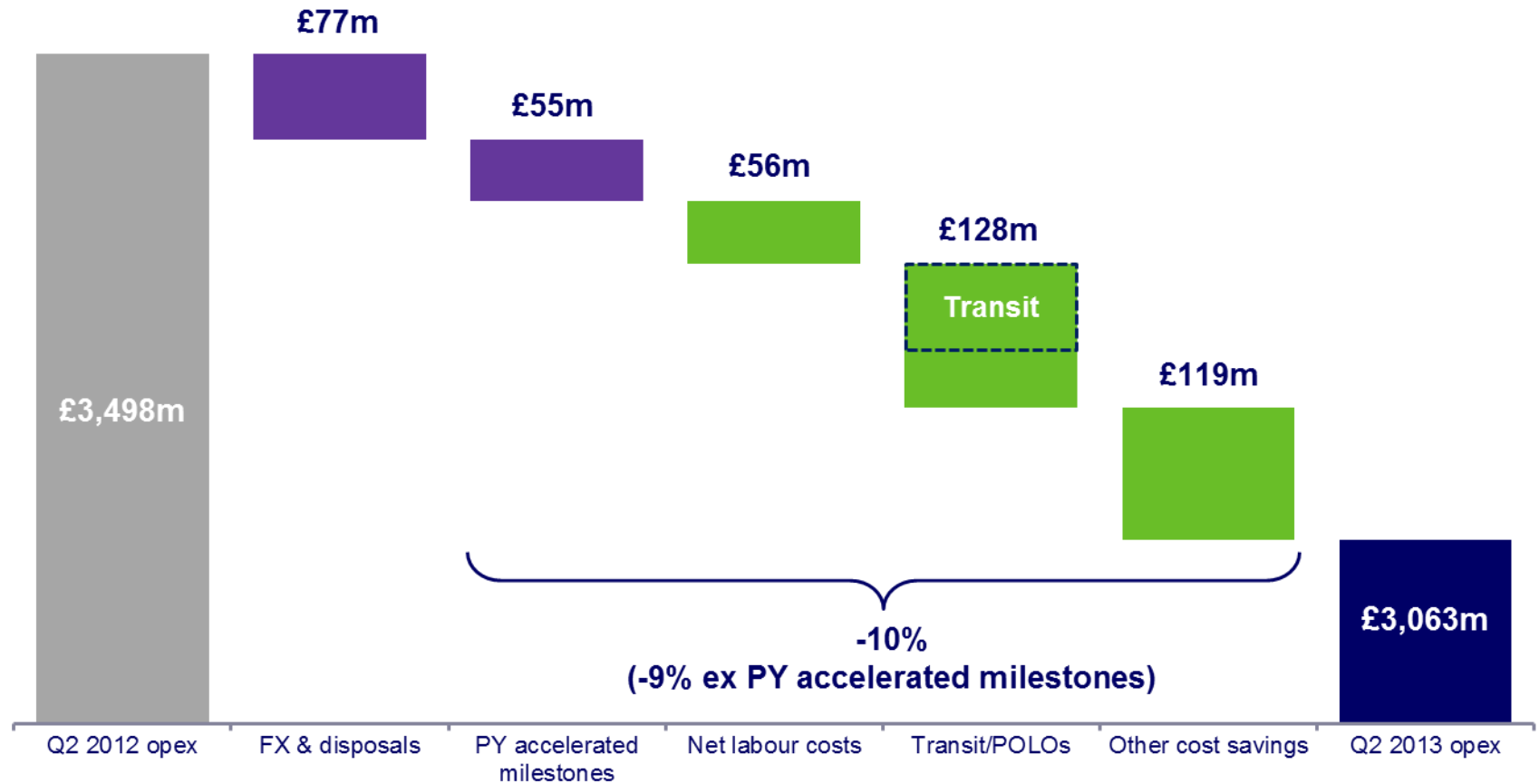
¹ before specific items

² before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

Q2 2013 change in net debt



Q2 2013 cost transformation



£435m opex reduction in Q2

£752m opex reduction in H1

Cost transformation Global Services

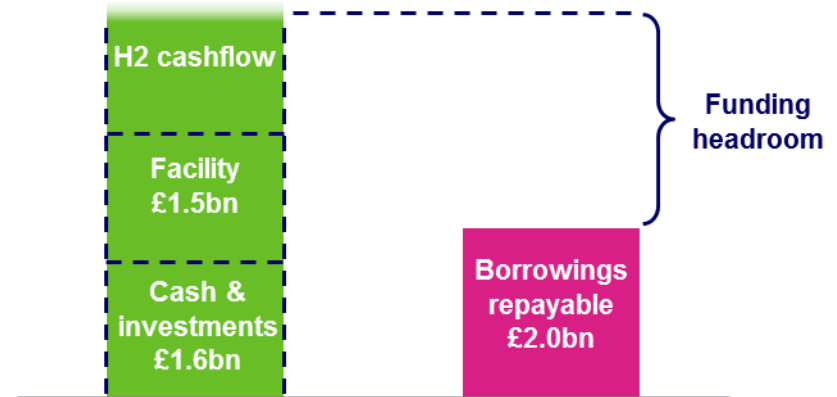
	In progress	Short-term	Medium-term
Network	<ul style="list-style-type: none"> ▶ Migration off legacy platform completed <ul style="list-style-type: none"> – c.£20m additional annualised savings 	<ul style="list-style-type: none"> ▶ Network optimisation <ul style="list-style-type: none"> – new PoPs in Asia, LatAm and EMEA – customer circuit capacity reviews 	<ul style="list-style-type: none"> ▶ Further legacy platform migrations ▶ Optimise use of owned network assets
Procurement	<ul style="list-style-type: none"> ▶ Access improvement programme <ul style="list-style-type: none"> – c.£30m annualised savings ▶ Supplier tail programme <ul style="list-style-type: none"> – 15,000 suppliers 	<ul style="list-style-type: none"> ▶ CPE field services and distribution procurement improvements 	<ul style="list-style-type: none"> ▶ Continuous improvement of access procurement and processes ▶ Insourcing
Process	<ul style="list-style-type: none"> ▶ Migration of contract management to shared service centres <ul style="list-style-type: none"> – c.180 contracts, c.£20m annualised savings 	<ul style="list-style-type: none"> ▶ End-to-end 'lead to cash' process efficiency ▶ New contract management shared service locations in LatAm and Malaysia 	<ul style="list-style-type: none"> ▶ End-to-end service process efficiency ▶ End-to-end back office efficiency

Liquidity and pensions

Liquidity

- ▶ Strong liquidity position
 - cash & investments of £1.6bn and committed facility of £1.5bn
- ▶ £0.3bn debt repaid in quarter
- ▶ £2.0bn of borrowings repayable in H2 2013

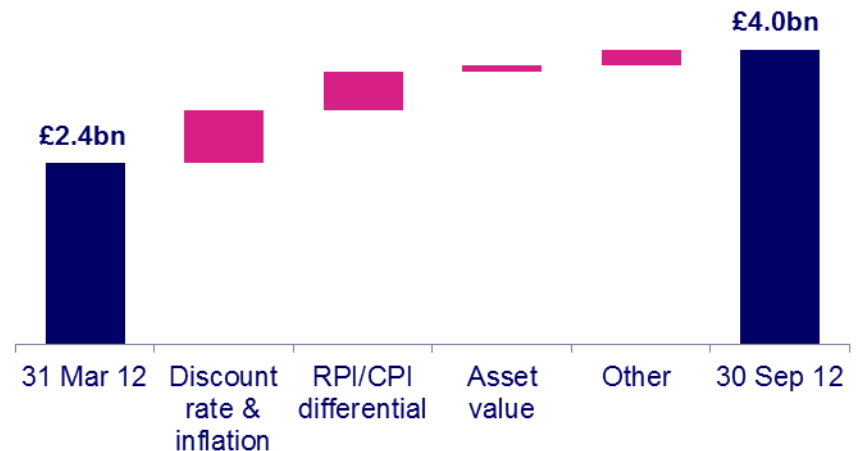
Repayment of debt in H2



Pensions

- ▶ IAS19 deficit £4.0bn gross of tax
 - £3.1bn net of tax
 - higher deficit reflects lower discount rate and lower RPI/CPI differential

Change in IAS19 deficit¹



¹ gross of tax

Outlook

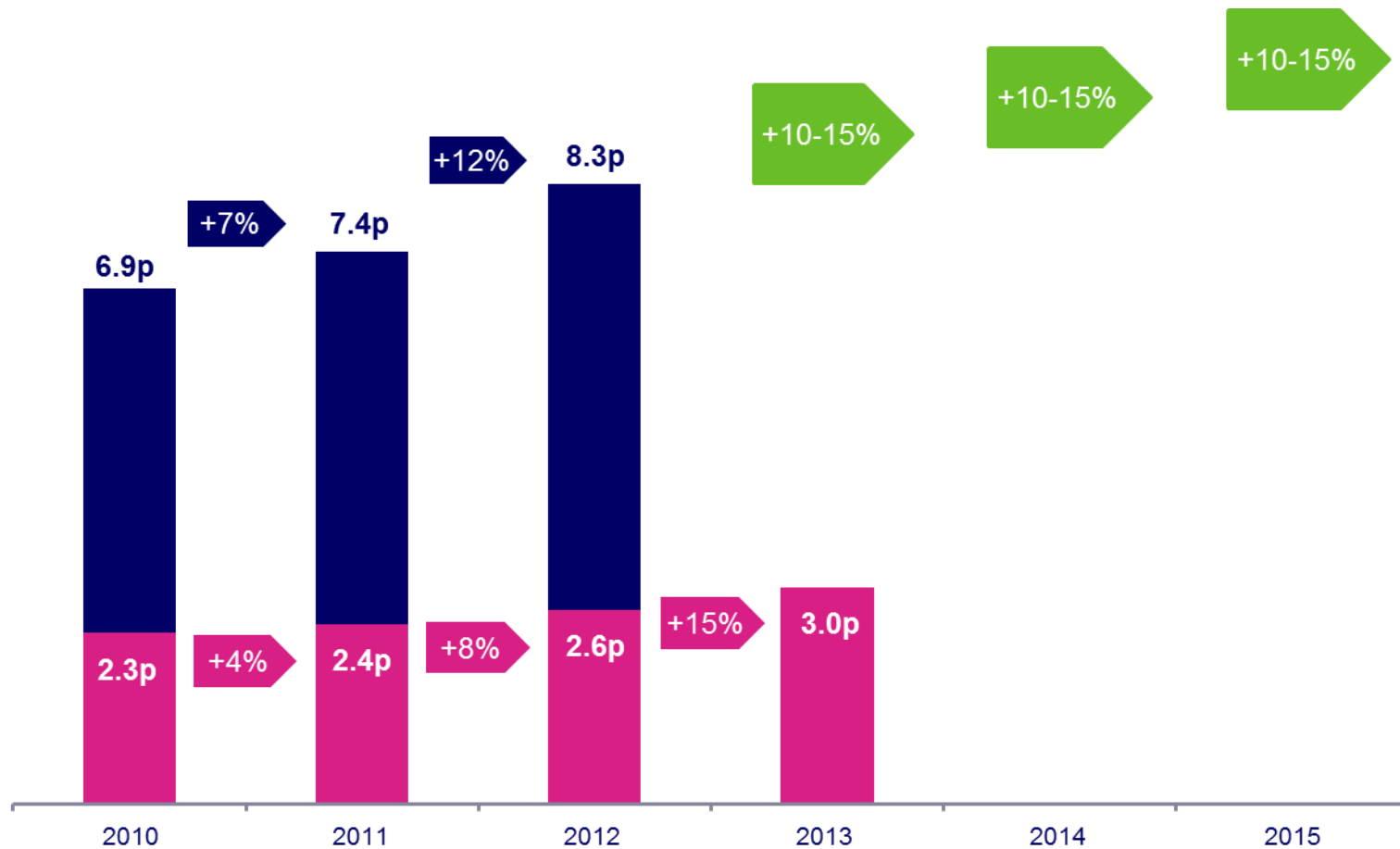
	2013	2014	2015
Underlying revenue ex transit	<ul style="list-style-type: none">▶ Improved trend for H2 vs H1 <div data-bbox="562 491 1137 698" style="border: 1px solid gray; padding: 5px;"><ul style="list-style-type: none">▶ FY impacted by ladder pricing and tougher conditions for GS</div>	<ul style="list-style-type: none">▶ Improving trend	
EBITDA¹	<ul style="list-style-type: none">▶ Growth<ul style="list-style-type: none">– despite ladder pricing and tougher conditions for GS	<ul style="list-style-type: none">▶ Broadly level with 2013	
Normalised² FCF	<ul style="list-style-type: none">▶ Broadly level with 2012	<ul style="list-style-type: none">▶ >£2.2bn	<ul style="list-style-type: none">▶ c.£2.5bn

¹ before specific items

² before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

Shareholder returns progressive dividends

Dividends per share



A better business



A better future

BT Group plc

Q&A