



BT Group plc

Q3 2014/15 results

30 January 2015



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BT Group plc

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

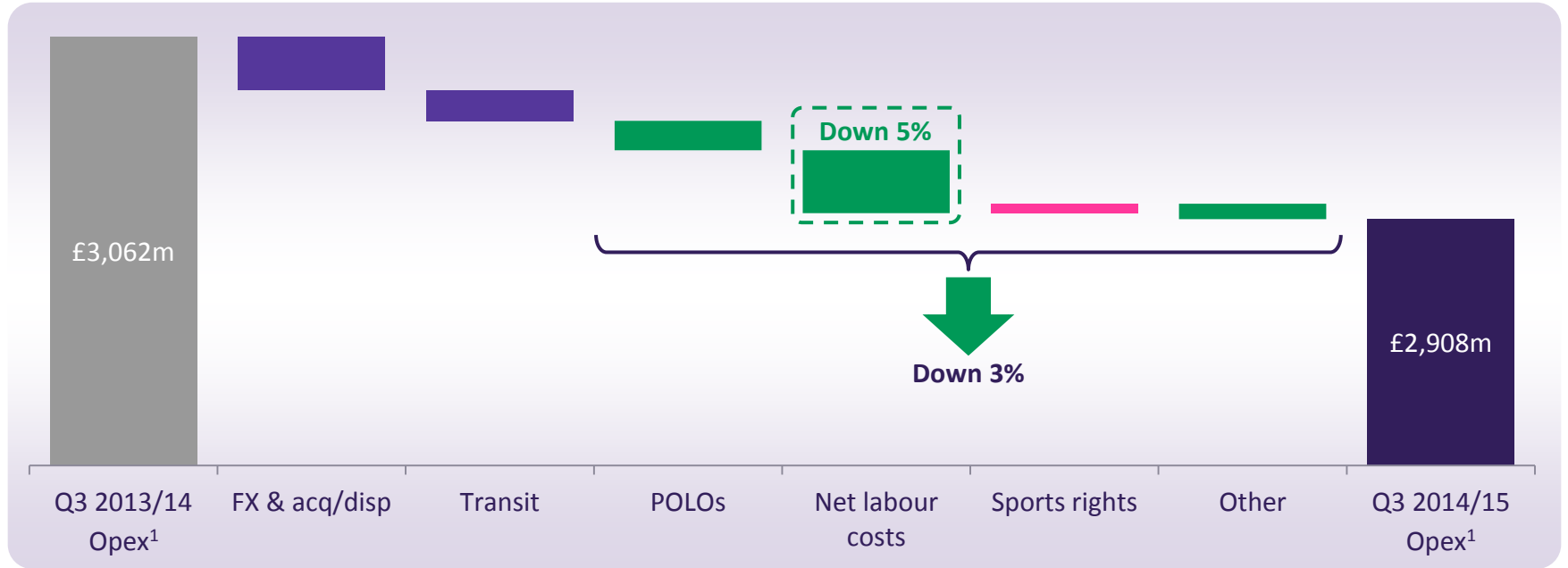
Revenue¹	£4,475m	(3)%	▼
- underlying ² ex transit		(1)%	▼
EBITDA¹	£1,567m	2%	▲
EPS¹	8.0p	10%	▲
Normalised free cash flow³	£908m	up £354m	▲
Net debt	£6,202m	down £1,438m	▼

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 costs¹



Down 5%; underlying ex transit down 3%

Still >£1bn of gross cost saving opportunities

¹ before specific items and depreciation and amortisation

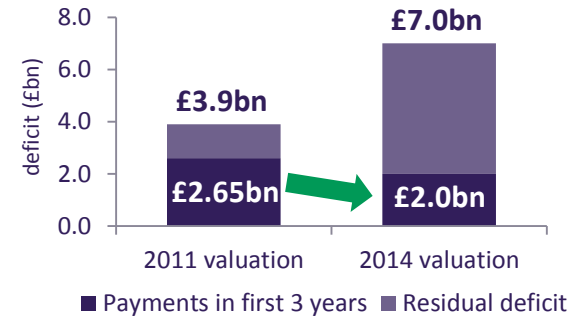
Pension – 2014 triennial funding valuation – key features

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

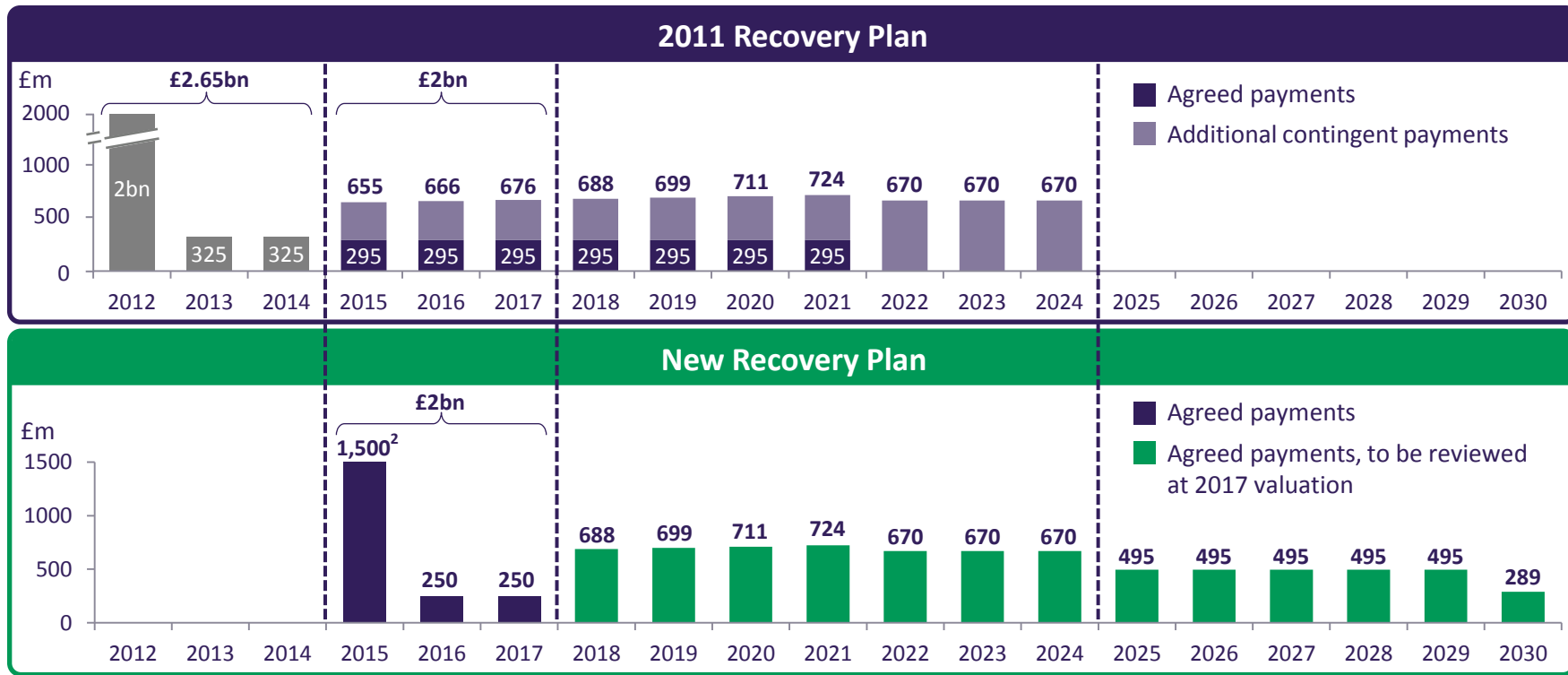
- ▶ 16 year recovery plan
 - longer plan reflects the strength and sustainability of our future cash flow generation

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 plan¹

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



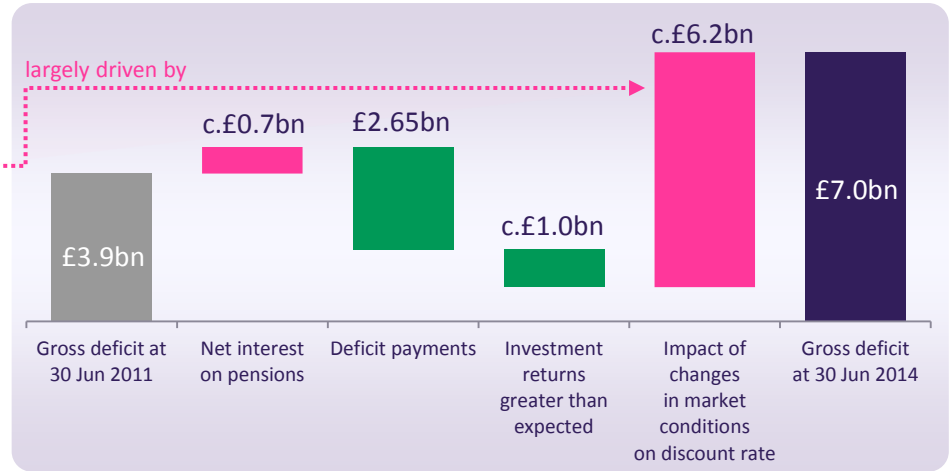
¹ Years are to 31 March

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	<ul style="list-style-type: none">▶ Additional matching contributions if:<ul style="list-style-type: none">– cumulative dividends exceed cumulative pension deficit contributions▶ Applies from 1 March 2012 to completion of 2014 valuation¹	<ul style="list-style-type: none">▶ Additional matching contributions if shareholder returns exceed:<ul style="list-style-type: none">– cumulative DPS increases of 15% pa, plus– share buyback of £300m pa▶ Applies from 29 January 2015 to completion of 2017 valuation²
Disposals & acquisitions	<ul style="list-style-type: none">▶ If disposal proceeds exceed £1bn in any year, 1/3 of proceeds paid into scheme▶ BT to consult with Trustee if it considers making acquisitions above £1bn in any 12 month period	<ul style="list-style-type: none">▶ As for 2011 valuation; plus▶ BT to consult with Trustee if it contemplates significant corporate events<ul style="list-style-type: none">– details of potential EE acquisition discussed with Trustee

¹Or 30 June 2015, if earlier

²Or 31 March 2019, if earlier

Outlook – unchanged

	2014/15	2015/16
Underlying revenue¹ ex transit	▶ Broadly level with 2013/14	▶ Growth
EBITDA²	▶ £6.2bn - £6.3bn	▶ Growth
Normalised FCF³	▶ 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

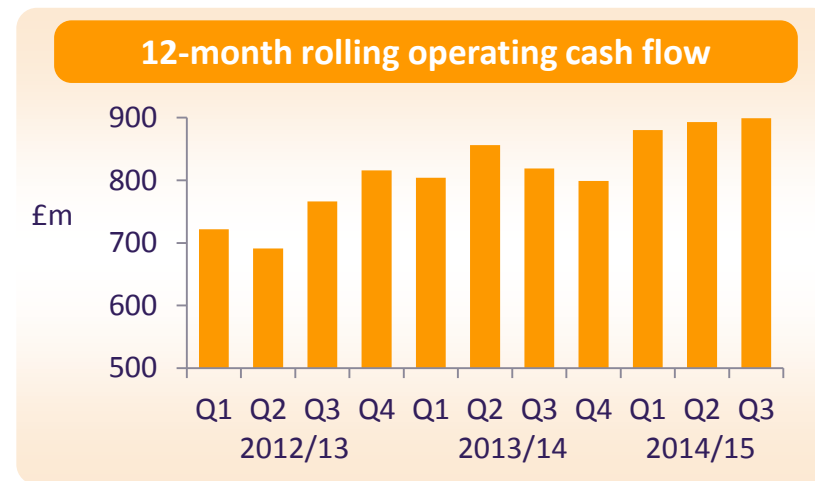


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Business – continued good cost control

- ▶ 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%

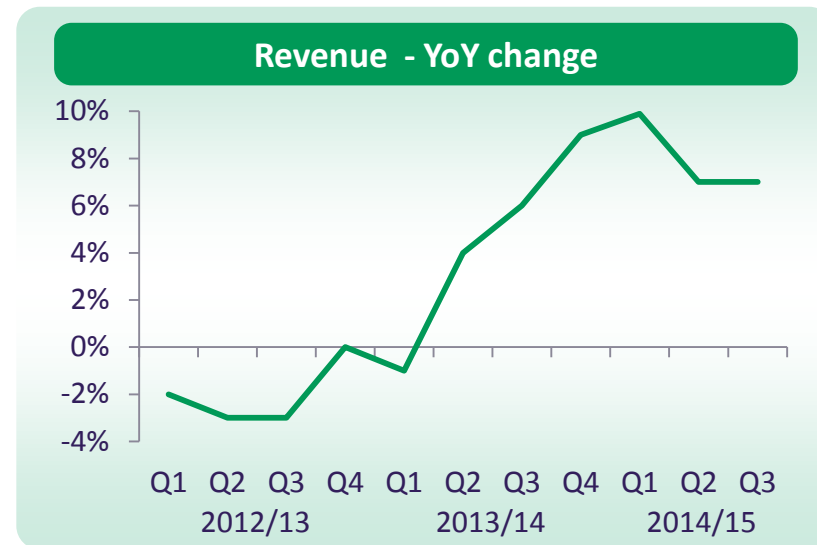
	Q3 2014/15	YoY change
Revenue	£789m	(2)%
- u/l ex transit		(1)%
EBITDA	£266m	4%



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% share¹ 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%



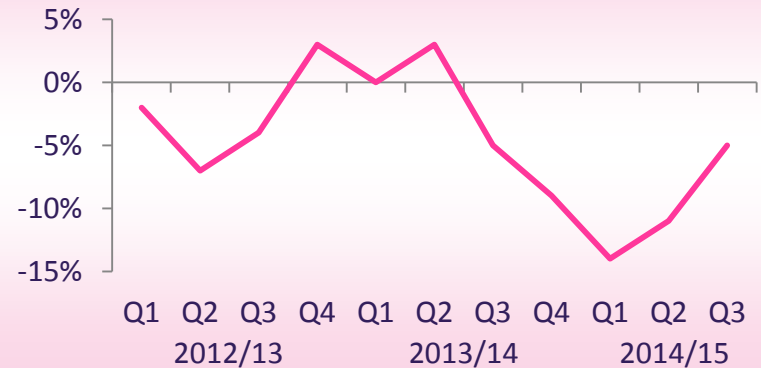
¹ share of growth in DSL and fibre broadband market

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 NBMR¹
 - 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 *CurrentAnalysis*²

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

Underlying revenue ex. transit – YoY change



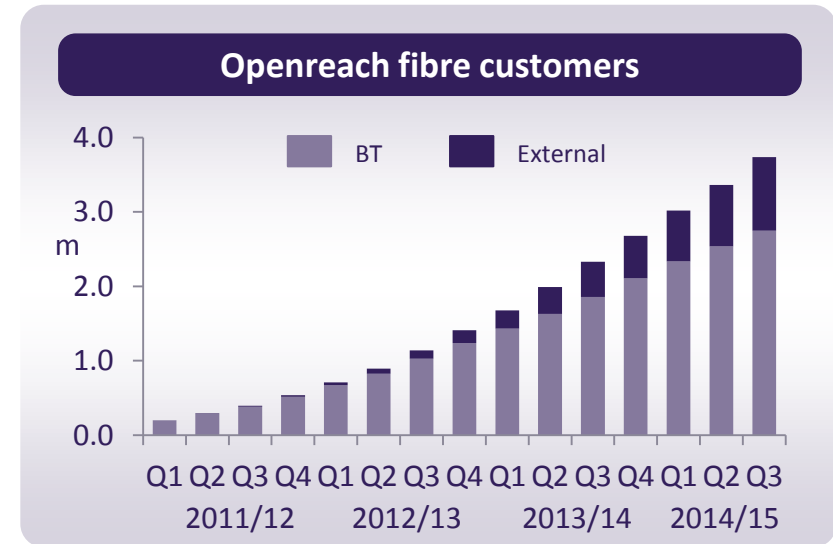
¹ Narrowband Market Review

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)%



Future network vision

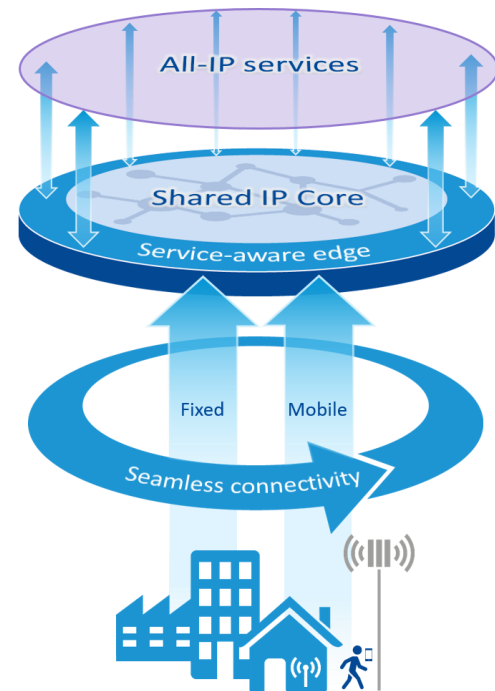
The convenience of mobile with the power of fixed

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

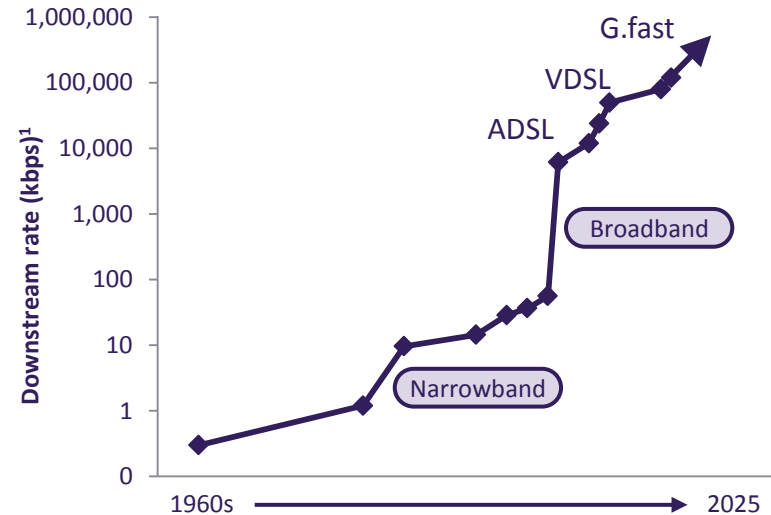
- ▶ One common access platform
- ▶ Connected through copper, fibre and mobile
- ▶ A single, IP core network
 - replacing legacy networks and platforms



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
Revenue¹	4,475	(3)%	<ul style="list-style-type: none"> ▶ £49m negative impact from FX ▶ £26m reduction in transit revenue
- underlying ex transit		(1)%	<ul style="list-style-type: none"> ▶ decline reflects contract milestones which benefitted results last year
EBITDA¹	1,567	2%	<ul style="list-style-type: none"> ▶ improved growth vs recent quarters driven by cost transformation
Operating profit¹	949	9%	<ul style="list-style-type: none"> ▶ depreciation and amortisation down 8%
Profit before tax¹	814	13%	
EPS¹	8.0p	10%	
Specific items²	(94)	21%	<ul style="list-style-type: none"> ▶ 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
EBITDA¹	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