



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	
Revenue¹	£4,278m	(2)%	
- underlying ² ex transit		flat	
EBITDA¹	£1,449m	1%	
EPS¹	6.7p	3%	
Normalised free cash flow³	£106m	down £16m	
Net debt	£5,819m	down £1,260m	

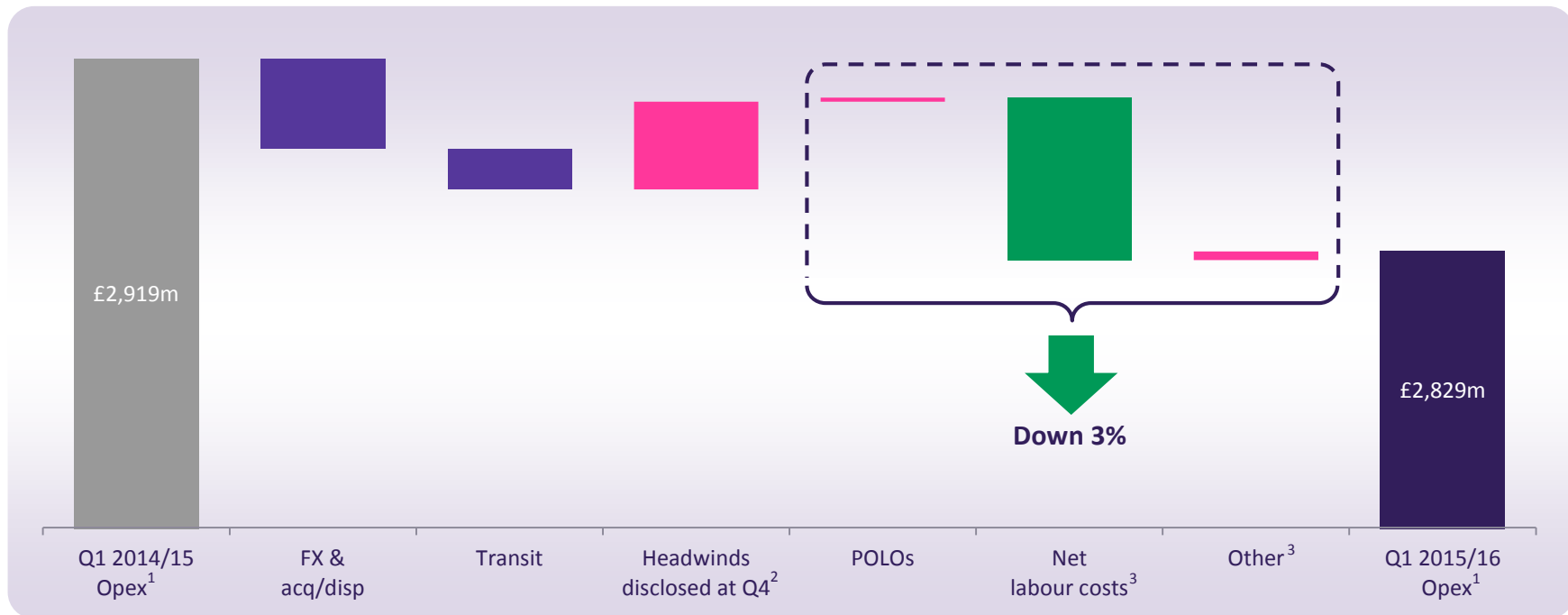
¹ before specific items

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

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Steady reduction in operating costs



Underlying opex¹ 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 lever 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

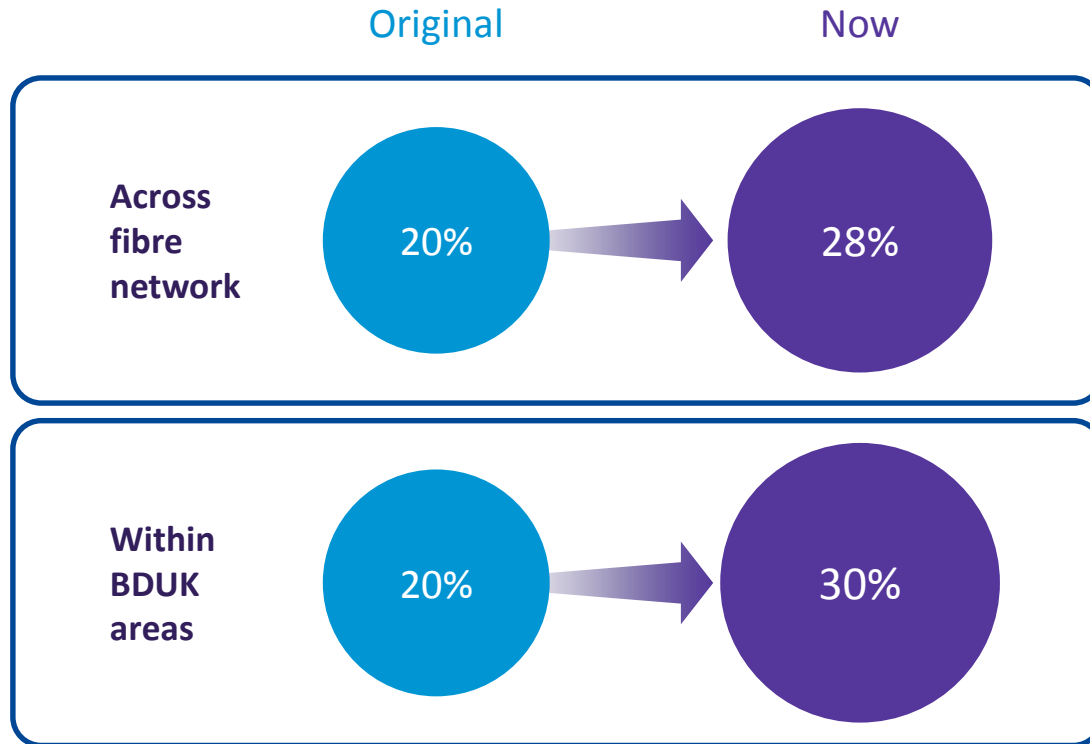


▶ Global Services - contact centres

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

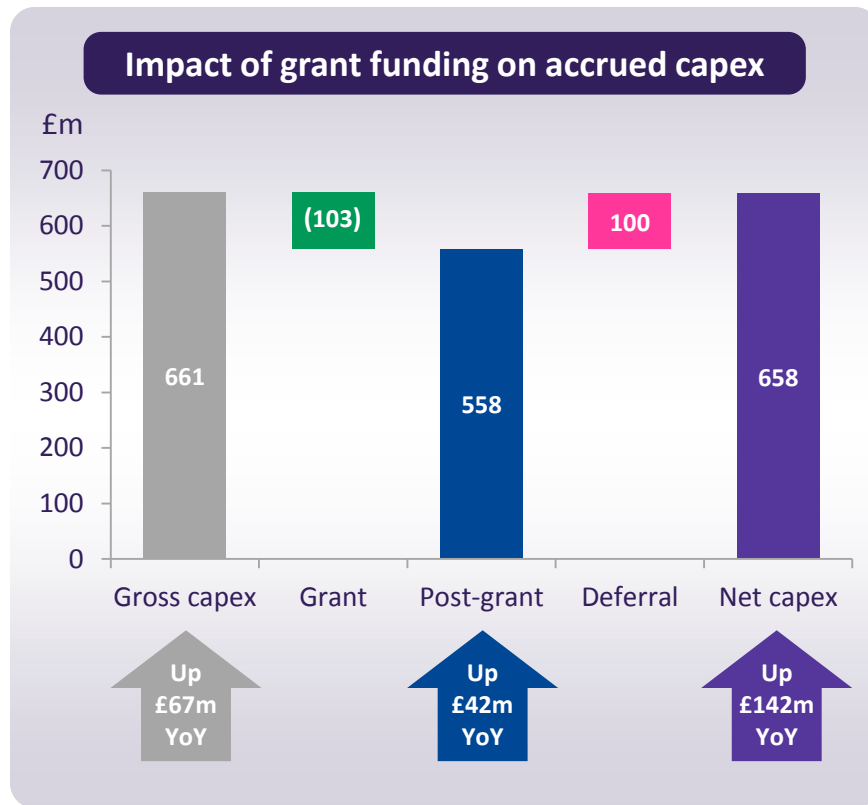
Strong market-wide demand for fibre broadband

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



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 outlook¹ unchanged

Underlying revenue² ex transit

Growth

EBITDA³

Modest growth

Normalised free cash flow⁴

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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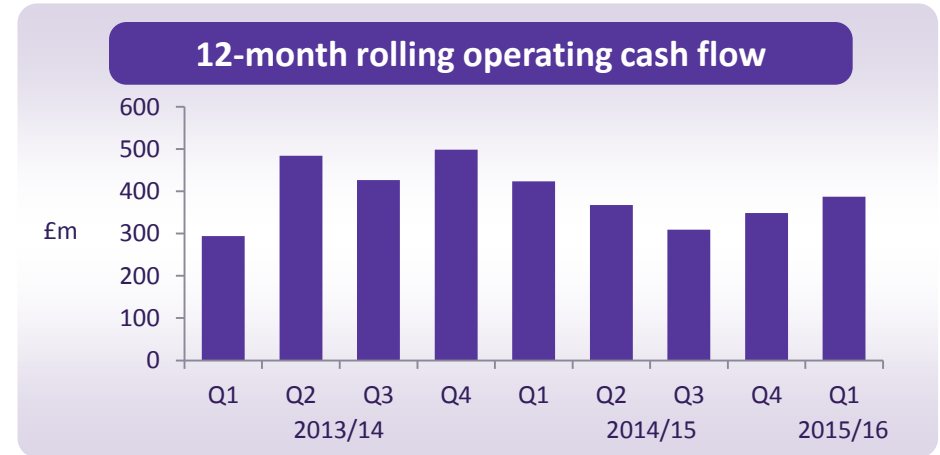
Gavin Patterson, Chief Executive



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%

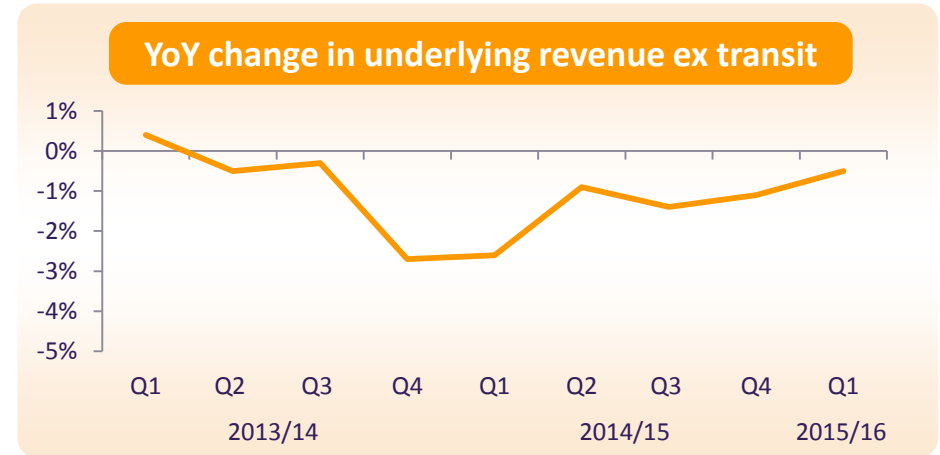
	Q1 2015/16	YoY change
Revenue	£1,543m	(6)%
- u/l ex transit		(4)%
EBITDA	£190m	(11)%



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%

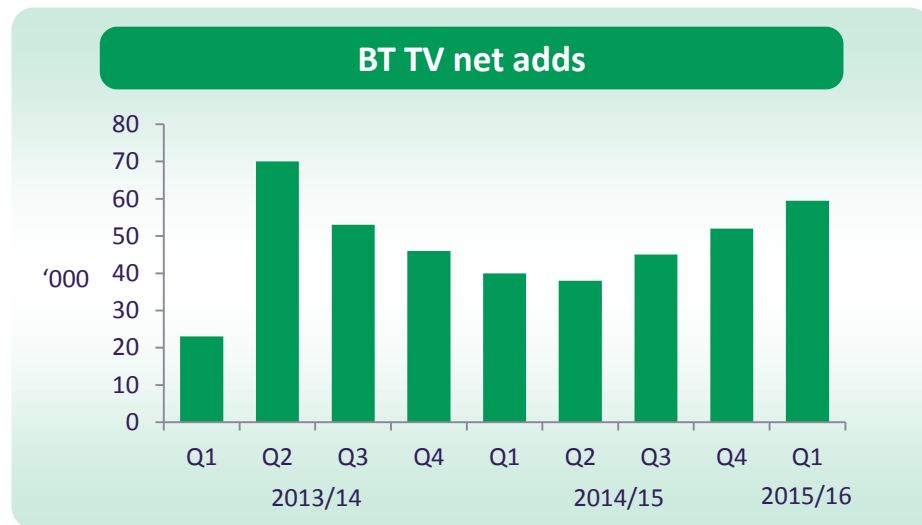
	Q1 2015/16	YoY change
Revenue	£749m	(2)%
- u/l ex transit		(1)%
EBITDA	£240m	flat



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 adds¹
 - 57% of market² 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

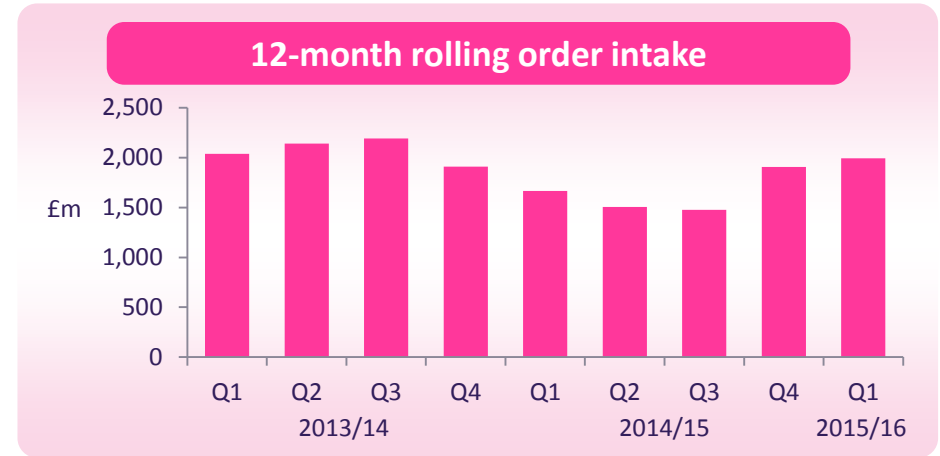
- ▶ **BT Sport ULTRA HD** launching in August

- first ultra HD (4K) live sports channel in Europe
- £15/month for 'Entertainment Ultra HD' TV package

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%

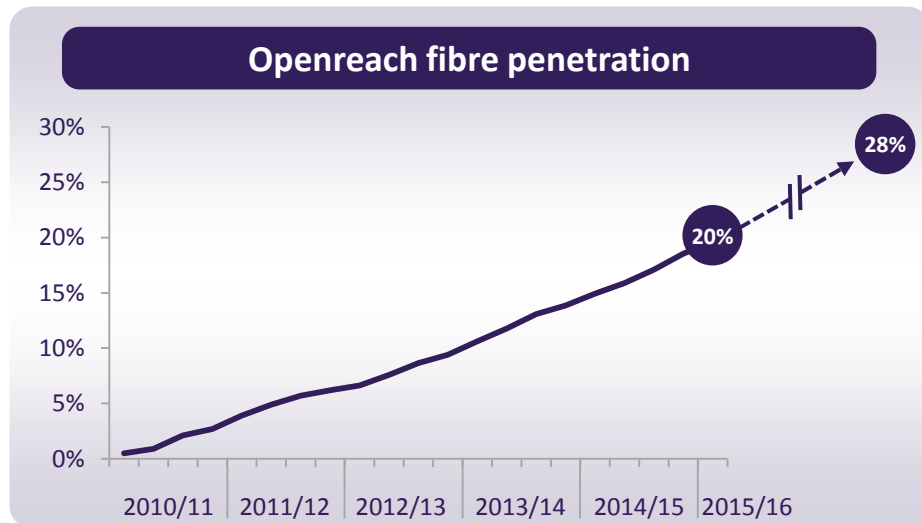
	Q1 2015/16	YoY change
Revenue	£530m	1%
- u/l ex transit		5%
EBITDA	£140m	11%



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 levels¹ set by Ofcom for 2015/16, which are more stretching than those in 2014/15
- ▶ Continued investment in service is delivering improvements:

-  **1. Better appointment availability**
People are getting installation appointments 1 day earlier than a year ago
-  **2. Keeping our commitments**
Over 99% of the time we offer an appointment within our SLA
-  **3. Fixing faults faster**
-  **4. Installing Ethernet faster**
Businesses are waiting 5 days less for installation

Q1 2014/15	Q1 2015/16	
8 days	7 days	Average time for first available installation date
12%	0.8%	Installation requiring an engineer where offered appointment is 1 or more working days above SLA
75%	77%	Faults fixed within agreed time (maintenance level 1 & 2)
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
Revenue¹	4,278	(2)%	<ul style="list-style-type: none"> ▶ £48m negative impact from FX ▶ £24m reduction in transit revenue
- underlying ex transit		flat	▶ improvement on 1.3% decline in Q4
EBITDA¹	1,449	1%	
Operating profit¹	821	5%	▶ depreciation and amortisation down 4%
Profit before tax¹	694	9%	▶ net finance expense down 9%
EPS¹	6.7p	3%	▶ number of shares in issue up 6%
Specific items²	(51)	(27)%	▶ mainly net interest expense on pensions of £55m

¹ before specific items

² net charge after tax

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Free cash flow

£m	Q1 2015/16	YoY change	Key points
EBITDA¹	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	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