

**BT Group plc**

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**Q1 2014/15 results**  
**31 July 2014**

# 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 outlook; cost transformation; the impact of regulatory and legal decisions and outcomes of appeals; our net debt, liquidity and funding position; our investment in fibre, the rollout progress and our BDUK activity; our investment in TV and our BT Sport content; and our investment in superior customer service.

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**Tony Chanmugam, Group Finance Director**

# Q1 2014/15 group results

YoY change

<b>Revenue</b> <sup>1</sup>	£4,354m	(2%)	▼
- underlying <sup>2</sup> ex transit		0.5%	▲
<b>EBITDA</b> <sup>1</sup>	£1,435m	flat	➤
<b>EPS</b> <sup>1</sup>	6.5p	10%	▲
<b>Normalised free cash flow</b> <sup>3</sup>	£122m	up £182m	▲
<b>Net debt</b>	£7,079m	down £979m	▼

<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, purchases of telecommunications licences, pension deficit payments & cash tax benefit of pension deficit payments

# Cost transformation



- ▶ Improving our call centres
  - increasing efficiency and reducing overheads
  - new terms and conditions for new hires
  - insourcing back to the UK

▶ c.£150m



- ▶ Improving utilisation of our fleet
  - reducing fuel consumption; vehicle sharing

▶ c.£10m



- ▶ Replicating forensic UK approach overseas
  - process improvements
  - network optimisation
  - supplier value-for-money
  - reducing cost of failure

▶ c.£300m

**Q1 opex<sup>1</sup> down 3% excluding BT Sport**

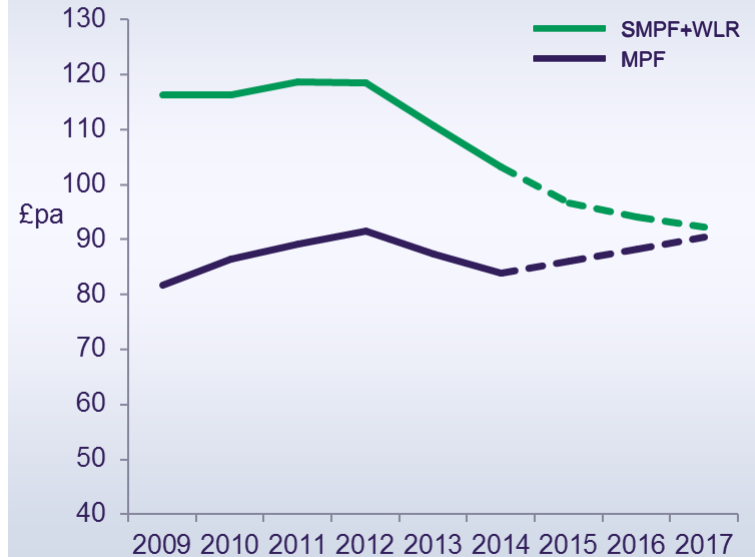
# Regulation

## ▶ Copper

- Ofcom confirmed new price controls for 2014/15 to 2016/17
- £80-100m impact on Openreach in 2014/15
  - Group impact materially lower
  - full impact from Q2
- limited YoY impact in 2015/16 and 2016/17

## Openreach copper rental pricing

At 31 March



# Regulation

## ▶ Fibre

- wholesale fibre rental price unregulated until at least 2017
- margin squeeze
  - TalkTalk's Competition Act complaint rejected
  - consultation underway on ex ante assessment

## ▶ Ladder pricing

- Supreme Court found in our favour
- starting proceedings to recover money from MNOs

# Other financial information

## ▶ Pension

- IAS19 deficit £5.8bn net of tax (Q4 2013/14: £5.6bn)
  - higher deficit reflects lower real discount rate
- >25% of longevity risk insured
- actuarial valuation has commenced
  - Crown Guarantee won't be taken into account

## ▶ Strong liquidity position

- 5-year EUR 1bn bond issued in quarter
- At 30 June, cash & investments of £2.2bn; available facilities of further £1.5bn
  - £0.5bn debt matured in July, further £0.2bn repayable in rest of 2014/15

## ▶ Share buyback

- 39m shares acquired; £141m cash cost in quarter
- we continue to expect to spend c.£300m for the year



# Outlook unchanged

2014/15

2015/16

**Underlying revenue ex transit**

▶ Broadly level with 2013/14

▶ Growth

**EBITDA<sup>1</sup>**

▶ £6.2bn-£6.3bn

▶ Growth

**Normalised FCF**

▶ Above £2.6bn

▶ Growth

**Dividends**

▶ Up 10-15%

▶ Up 10-15%

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**Gavin Patterson, Chief Executive**

# Our purpose, goal, strategy and culture

Our purpose

To use the power of communications to make a better world

Our goal

A growing BT: to deliver sustainable profitable revenue growth

Our strategy

Broaden and deepen our customer relationships

Deliver superior customer service

Transform our costs

Invest for growth

Fibre

TV and content

Mobility and future voice

UK business markets

Leading global companies

Our culture

A healthy organisation

# Deliver superior customer service



## Progress on service since Q4



Improved one-contact resolution



>20% faster delivery of main Global Services products over last 4 months



Faster repair times



Consumer complaints down c.20% versus Q4



'Right First Time' measure up



## Future focus

▶ To deliver a step-change in service:



Infrastructure

- increase network resilience



Systems and tools

- introduce new diagnostic tools
- improve online capabilities



Support

- provide dedicated help for complex service enquiries
- recruit additional engineers
- rebalance our resources

# Global Services – continuing to deliver on costs

- ▶ Underlying revenue ex transit down 2%
  - lower UK public sector revenue
  - partly offset by high-growth regions
- ▶ Underlying operating costs ex transit down 2%
- ▶ EBITDA up 1%
  - up 4% excluding FX
- ▶ Operating cash outflow of £337m
  - usual seasonal phasing
  - c.£60m of early receipts in Q4
- ▶ £1.1bn order intake, down 38%
  - large renewal in prior year
  - down 8% on a 12-month rolling basis

	Q1 2014/15	Change
Revenue	£1,647m	(6%)
- u/l ex transit		(2%)
EBITDA	£213m	1%



# Business – progress on costs driving EBITDA growth

- ▶ Underlying revenue ex transit down 3%
  - voice down 4% partly reflecting migration to VoIP
  - IT services down 2% due to lower hardware sales
  
- ▶ Operating costs down 5%
  
- ▶ EBITDA up 2%
  - reflects cost transformation programmes
  
- ▶ Operating cash inflow of £190m, up 74%
  - up 9% on a 12-month rolling basis
  
- ▶ Order intake up 3%

	Q1 2014/15	Change
Revenue	£762m	(3%)
- u/l ex transit		(3%)
<b>EBITDA</b>	<b>£240m</b>	<b>2%</b>

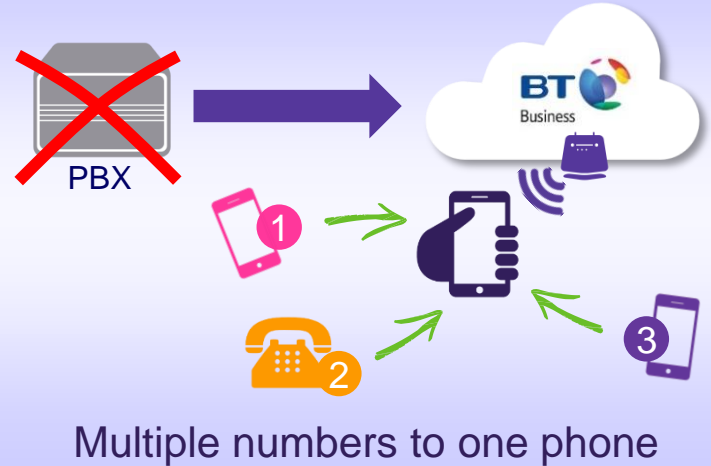


# Business – mobility and future voice

## BT One Phone Office

- ▶ Converged fixed-mobile voice solution
  - dedicated indoor mobile network; seamless handover to national mobile network
  - cloud-based system; intelligent call management
- ▶ Customer benefits
  - single supplier
  - high-quality indoor coverage & capacity
  - improved flexibility and productivity
  - lower total cost of ownership

## Cloud-based phone system



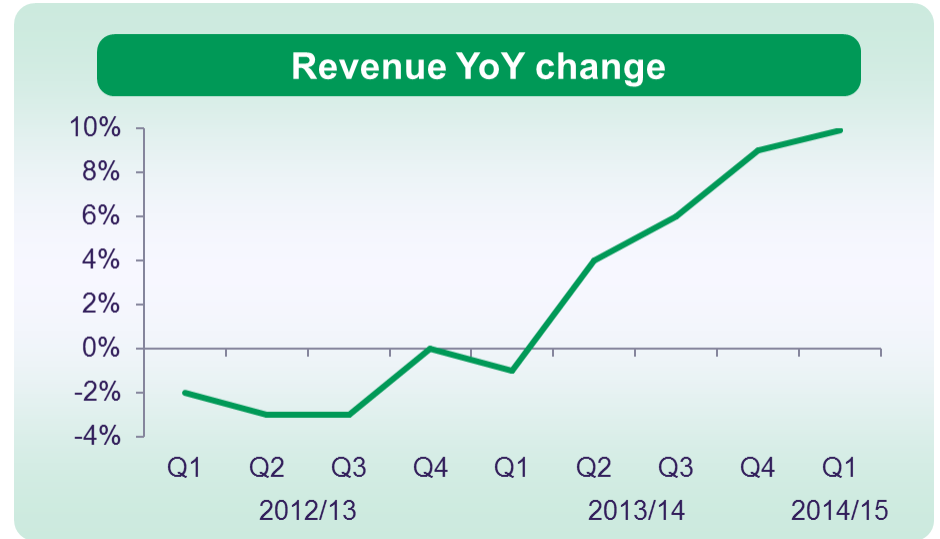
## BT Business Mobile

- ▶ New 4G MVNO mobile plans launching soon
- ▶ Wide range of handsets and call/data plans

# Consumer – another strong quarter

- ▶ Revenue up 10%
  - broadband & TV up 26%
- ▶ EBITDA up 3%
- ▶ Consumer line loss of 69,000
  - 47% better than last year
- ▶ 64% share of broadband market<sup>1</sup> net adds
- ▶ 226,000 retail fibre broadband net adds
  - customer base over 2.3m
- ▶ 40,000 TV customers added<sup>2</sup>
- ▶ BT Sport base continued to grow

	Q1 2014/15	Change
Revenue	£1,046m	10%
EBITDA	£238m	3%



<sup>1</sup> DSL and fibre, excluding cable

<sup>2</sup> excludes removal of 35,000 inactive customers from TV base



# Wholesale – ongoing challenges

- ▶ Underlying revenue ex transit down 14%
  - managed solutions down 21%, includes Post Office contract termination
  - calls, lines & circuits down 23% driven by NBMR regulation
  - IP services up 42%
- ▶ Underlying operating costs ex transit down 12%
  - lower cost of sales
  - SG&A down 17%
- ▶ EBITDA down 20%
- ▶ Order intake £264m, down 48%
  - down 18% on a 12-month rolling basis

	Q1 2014/15	Change
Revenue	£525m	(18%)
- u/l ex transit		(14%)
EBITDA	£126m	(20%)

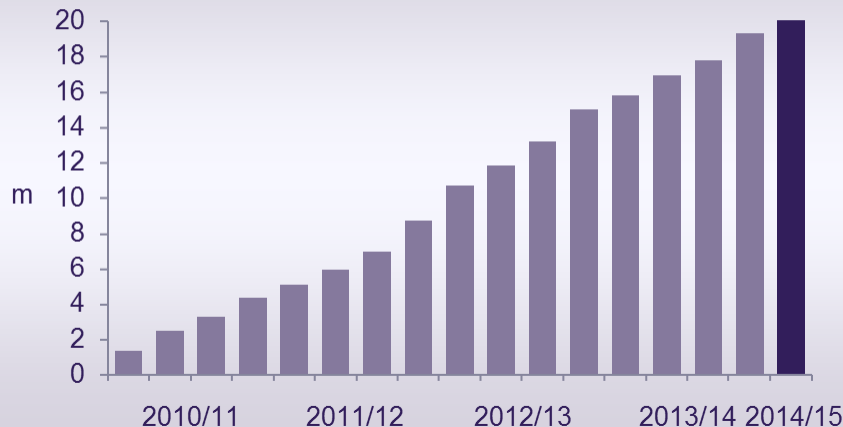


# Openreach – stable performance, regulatory headwind

- ▶ Revenue flat
  - c.£40m impact from regulation
  - fibre revenue up 46%
- ▶ Operating costs down 3%
  - efficiencies offset pay inflation and additional engineers
- ▶ EBITDA up 3%
- ▶ Fibre progress
  - >20m premises passed
  - 341,000 net connections in Q1
  - >3m premises connected, 15% of those passed
- ▶ 12,000 increase in physical lines
  - base up 82,000 YoY

	Q1 2014/15	Change
Revenue	£1,245m	flat
EBITDA	£624m	3%

## Fibre rollout – premises passed



# Q1 summary

- ▶ Good start to the year
- ▶ Investments continue to deliver
- ▶ Further progress on cost transformation

**Building a strong platform for growth**

**BT Group plc**

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**Q&A**