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BT Group plc

Q3 2013 results

1 February 2013

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Tony Chanmugam, Group Finance Director

Q3 2013 income statement

£m	Q3 2013	Change	Key points
Revenue¹	4,510	(6%)	<ul style="list-style-type: none"> ▶ transit down £66m ▶ £50m negative FX impact
- underlying ex transit		(3%)	<ul style="list-style-type: none"> ▶ macro conditions, regulation ▶ better Global Services & Wholesale performances
EBITDA¹	1,548	2%	<ul style="list-style-type: none"> ▶ underlying costs down 7%
Operating profit¹	842	7%	<ul style="list-style-type: none"> ▶ lower depreciation
Profit before tax¹	675	7%	
EPS¹	6.6p	8%	
Specific items	(38)	n/m	<ul style="list-style-type: none"> ▶ historic Ethernet pricing, restructuring

¹ before specific items

Q3 2013 free cash flow

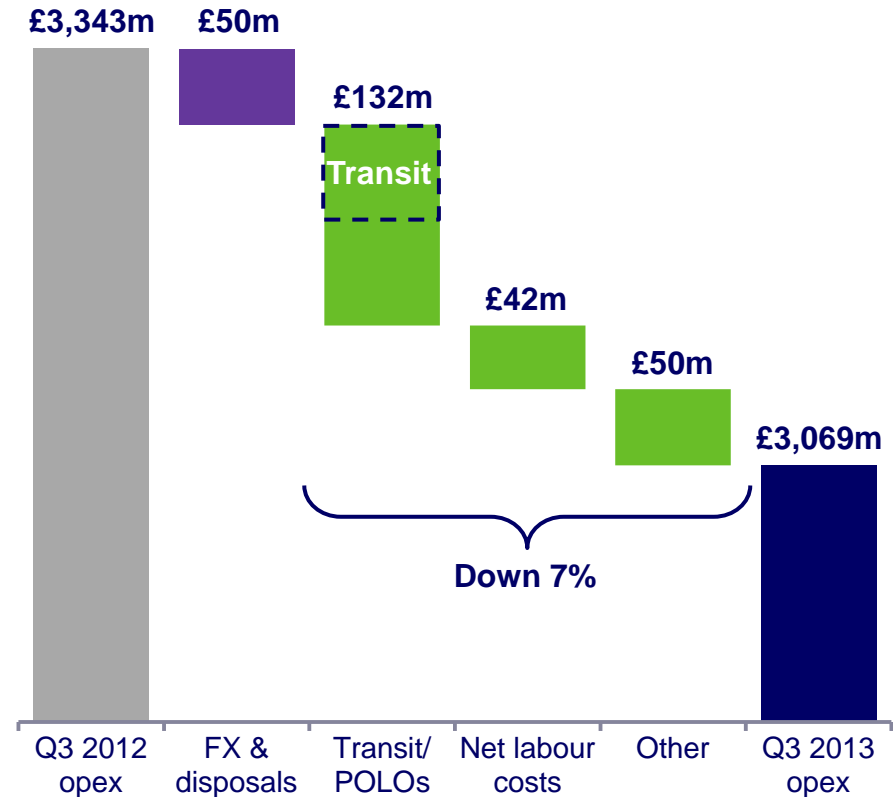
£m	Q3 2013	Change	Key points
EBITDA¹	1,548	24	
Capex	(586)	53	▶ higher PY spend on Wholesale Broadband Connect
Interest	(210)	(10)	▶ timing of coupons
Tax	(168)	(5)	
Working capital & other	223	111	▶ timing of customer receipts
Normalised FCF²	807	173	
Cash tax benefit of pension deficit payments	157	157	▶ relating to £2bn pension payment in March 2012
Adjusted FCF¹	964	330	
Specific items	(96)	(48)	▶ historic Ethernet pricing, restructuring
Reported FCF	868	282	
Net debt	8,140	(404)	▶ down £897m in quarter

¹ before specific items

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

Q3 2013 cost transformation

- ▶ Global Services
 - improved terms with suppliers
- ▶ Non-consumer faults process
 - migrating to shared service centres
 - earlier fault resolution and fewer hand-offs
- ▶ Openreach engineer productivity
 - c.£30m opportunity from better resource management



£274m opex reduction in Q3

>£1bn opex reduction YTD

Opex = operating expenditure before specific items, depreciation & amortisation and other operating income

Cost transformation

- ▶ Group-wide restructuring programme including:
 - migration of BTID & BTO into BT TSO & lines of business
 - rationalisation of Global Services processes, resources, networks & systems
 - transformation of group-wide support functions
- ▶ Additional restructuring costs over Q4 & FY2014
- ▶ Future cost savings and improved customer service delivery

Q3 2013 other financial information

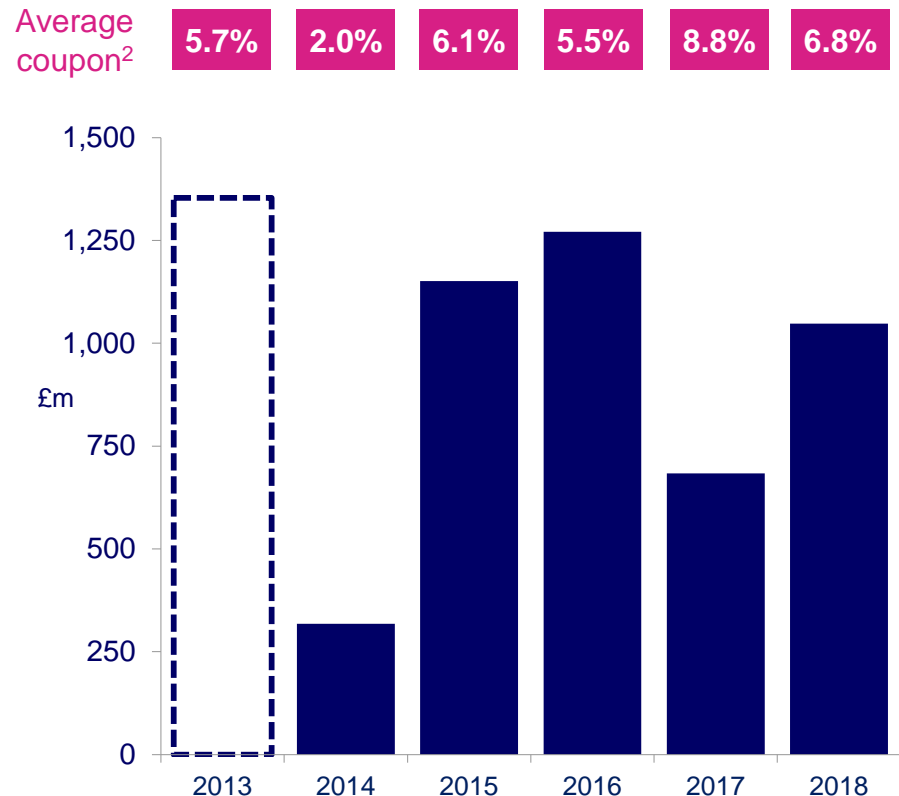
▶ IAS 19 deficit £4.3bn net of tax (Q2: £3.1bn)

- increased deficit reflects higher inflation assumption
- assets increased by £0.4bn

▶ Cash & investments of £2.2bn as at 31 Dec 2012

- £1.4bn of term debt repaid in January

Maturity of term debt¹



¹ carrying value at 31 December 2012, assuming no renewal or new facilities. Carrying value reflects final principal repayments at hedged rates

² weighted average coupon of term debt maturing in year (including swap rates), based on carrying value of debt at hedged rates at 31 December 2012

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Ian Livingston, Chief Executive

Q3 2013 line of business overview

Global Services

	Q3 2013	Change
Revenue	£1,746m	(8%)
- underlying revenue ex transit		(5%)
EBITDA	£163m	13%

- ▶ Underlying revenue ex transit down 5%
 - continued tough conditions in Europe & financial services sector
 - double digit growth in high-growth regions¹
- ▶ Order intake £1.9bn, up 17%
- ▶ Underlying operating costs ex transit down 7%
- ▶ Underlying EBITDA up 17%
 - timing of costs in year, down 1% YTD
- ▶ EBITDA less capex of £42m (Q3 2012: £5m)
- ▶ Cash flow £46m lower reflecting working capital

Contracts signed in quarter



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

Q3 2013 line of business overview

Retail

	Q3 2013	Change
Revenue	£1,793m	(3%)
EBITDA	£474m	5%

Financial

- ▶ Consumer revenue down 3%
 - lower calls & lines revenue
 - growth in broadband
- ▶ Business revenue down 3%
 - lower calls & lines revenue
 - growth in IT services
- ▶ Ireland revenue up 5% ex FX
 - 50% of NI retail broadband base now on fibre
- ▶ Net operating costs down 6%

Operational

- ▶ 44% market share of broadband net adds¹
- ▶ BT Retail fibre
 - 200,000 net adds
 - >1 million customers
- ▶ Wi-fi minutes trebled to 3.9bn
- ▶ SmartTalk app launched
 - allows customers to make cheaper smartphone calls

Q3 2013 line of business overview

Retail - TV

▶ BT Vision

- 21,000 net adds
- now >60,000 customers with YouView boxes

▶ Multicast being rolled out

- 18 SD channels plus 4 HD
- available from an additional £2 per month

▶ BT Sport

- 4 year rights deal with Women's Tennis Association
- Clare Balding weekly chatshow
- production home at Olympic Park
- Sunset+Vine chosen as lead production partner

BT multicast channels



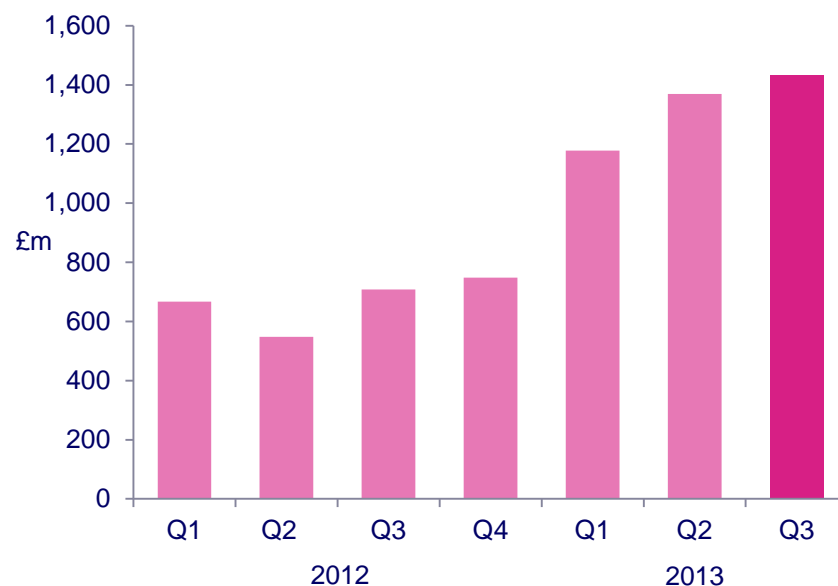
Q3 2013 line of business overview

Wholesale

	Q3 2013	Change
Revenue	£890m	(9%)
- underlying revenue ex transit		(3%)
EBITDA	£289m	(5%)

- ▶ Excluding ladder pricing
 - underlying revenue ex transit down 1%
 - EBITDA down 1%
- ▶ Net operating costs ex transit down 2%
 - reduction in labour costs
- ▶ Order intake c.£400m
- ▶ IP Exchange minutes up >80%

12 month rolling order intake



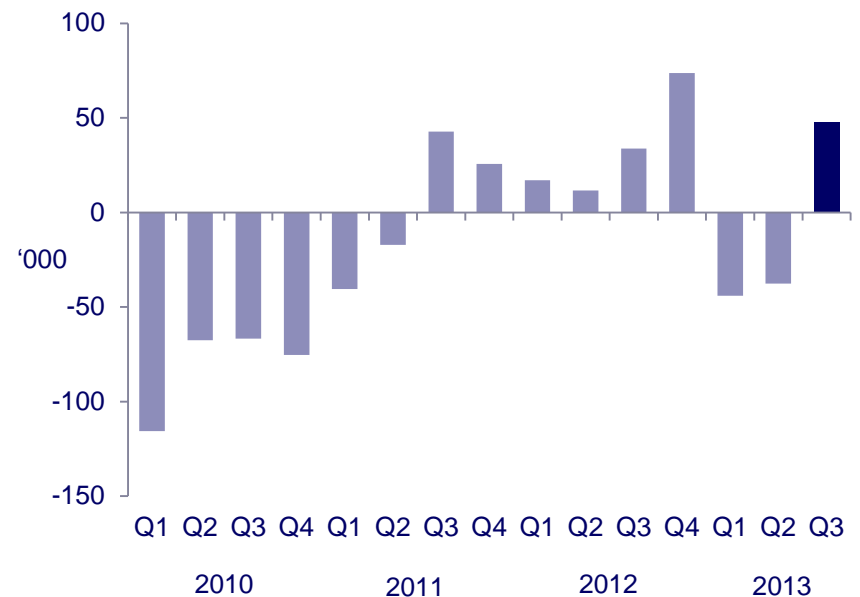
Q3 2013 line of business overview

Openreach

	Q3 2013	Change
Revenue	£1,274m	(2%)
EBITDA	£579m	(2%)

- ▶ Revenue down 2%
 - c.£50m impact of regulatory price changes
 - growth in Ethernet & fibre
- ▶ Net operating costs down 2%
 - despite additional engineering resource
- ▶ EBITDA down 2%
- ▶ 48,000 increase in physical lines
- ▶ 281,000 broadband net adds¹, up 7%

QoQ change in physical lines



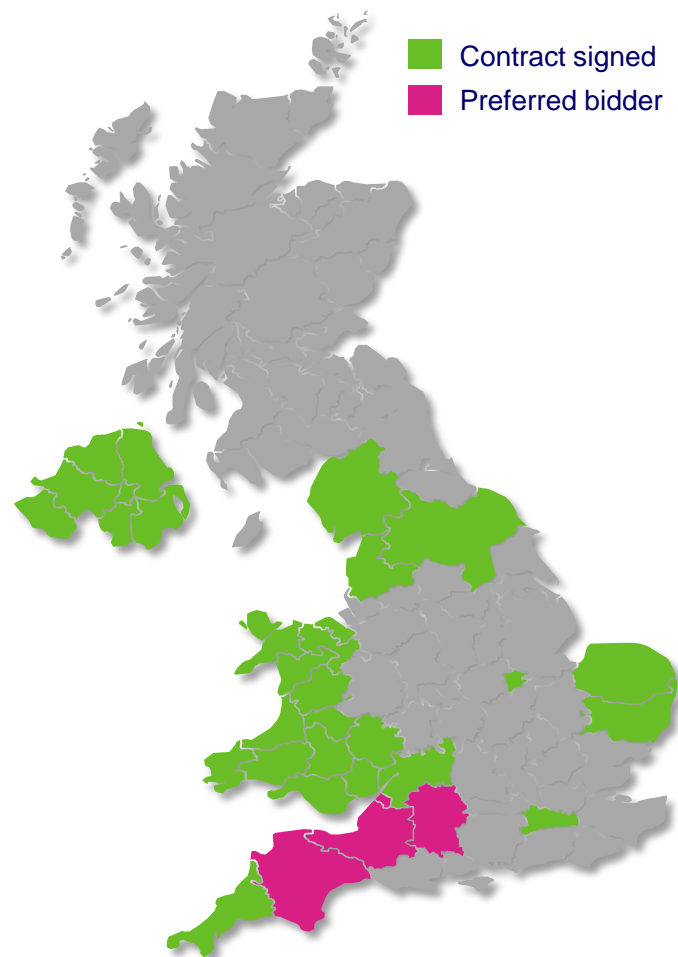
¹ DSL and fibre, excluding cable

Q3 2013 line of business overview

Fibre

- ▶ >13m premises passed
- ▶ c.1.25m premises now connected
 - c.250,000 connected in Q3
- ▶ BDUK progress
 - 11 BDUK bids won to date
 - Contracts signed in Q3
 - Cumbria
 - Herefordshire & Gloucestershire
 - Norfolk
 - Suffolk
 - Preferred bidder awarded in Q3
 - Devon & Somerset
 - Wiltshire & South Gloucestershire

Fibre in the 'final third'¹



Summary

- ▶ Solid financial performance
- ▶ Operational progress, but more to do
- ▶ Fibre roll-out continues at pace
- ▶ BT Sport plans progressing well
- ▶ On track for full year
- ▶ Detailed business update with FY results

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Q&A