

BT Group plc

Q3 2013/14 results
31 January 2014

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BT Group plc

Tony Chanmugam, Group Finance Director

Q3 2013/14 group results

YoY change

Revenue¹	£4,599m	2%	
- underlying ex transit		2.4%	
EBITDA¹	£1,537m	flat	
EPS¹	7.3p	12%	
Normalised² free cash flow	£554m	down £253m	
Net debt	£7,640m	down £500m	

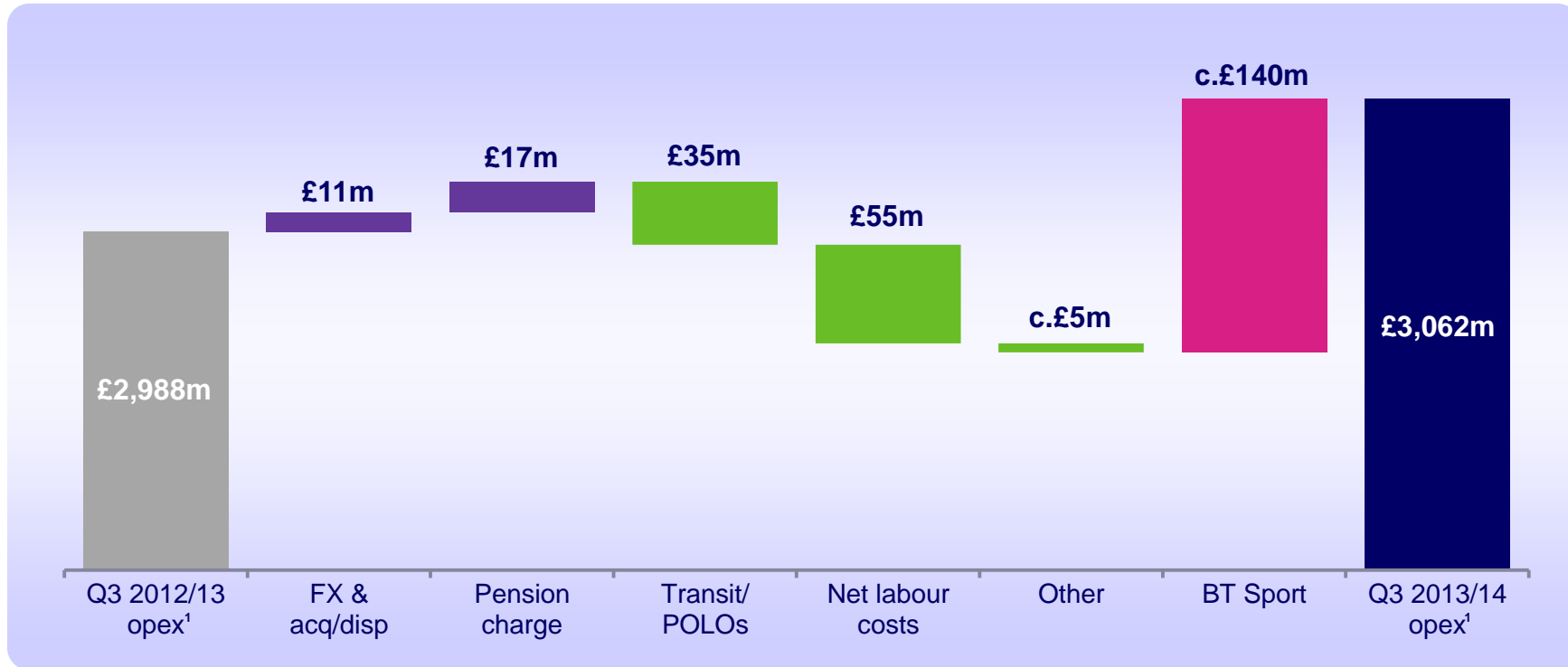
¹ before specific items

² before specific items, purchases of telecommunications licences, pension deficit payments & cash tax benefit of pension deficit payments

Q3 2013/14 summary results

YoY change	Global Services	Retail	Wholesale	Openreach	Group
Underlying revenue ex transit	↑ 4%	↑ 3%	↓ 5%	↓ 1%	↑ 2.4%
EBITDA ¹	↑ 22%	↓ 8%	↓ 5%	→ flat	→ flat
Normalised free cash flow	↓ £62m	↓ £119m	↓ £85m	↑ £4m	↓ £253m

Cost transformation



2% reduction² ex pension charge and BT Sport

¹ opex is before specific items and depreciation & amortisation

² underlying costs excluding transit

Cost transformation examples

▶ Contact centres

- optimising call centres and improving management efficiency

▶ c.£50m opportunity

▶ Global Services

- applying UK methodology on cost transformation in Europe & LatAm

▶ >£150m opportunity
– c.£70m benefit to date

▶ Insourcing

- c.200 jobs insourced into contract management shared service centre

▶ Unit costs halved
▶ Efficiency up 20%

Other financial information

▶ Pension

- IAS 19 deficit £5.8bn net of tax (Q2: £5.4bn)
 - increase primarily reflects higher market inflation expectations
- BT's median valuation
 - surplus broadly unchanged from 30 September 2013

▶ Share buyback

- 20m shares acquired for £76m

▶ Regulation – WLR/LLU consultation

- expect additional costs for Openreach relating to Ofcom's proposed service commitments

Outlook FY 2013/14

Underlying revenue ex transit

▶ Improved trend vs FY 2012/13



EBITDA¹

▶ Upper end of £6.0bn–£6.1bn



Capex

▶ Below FY 2012/13 level



Normalised FCF

▶ Around £2.3bn



Dividends

▶ Up 10%–15%



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Gavin Patterson, Chief Executive

Q3 summary

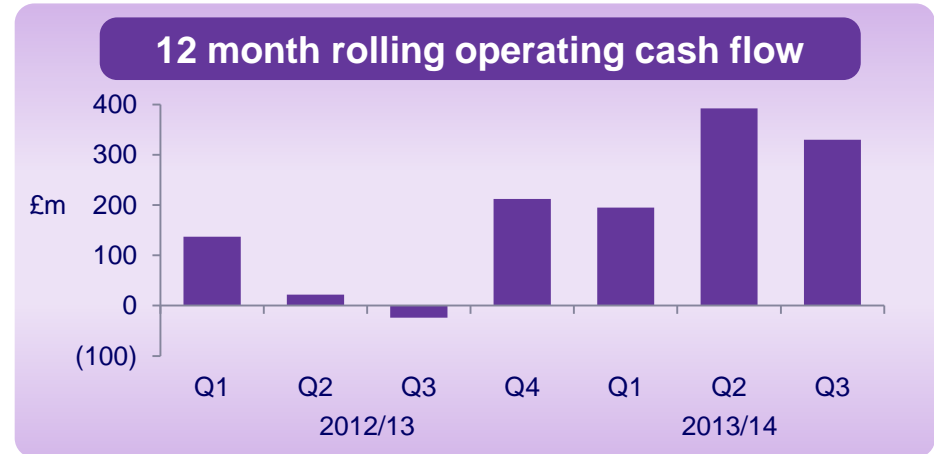
- ▶ Investments are delivering
- ▶ Further progress towards sustainable, profitable revenue growth
- ▶ Continued delivery on cost transformation and focus on improving customer service

Encouraging set of results

Global Services - good underlying performance

- ▶ Underlying revenue ex transit up 4%
 - benefit from timing of contract milestones
 - good performance in high-growth regions
- ▶ EBITDA up 22%
 - partly reflecting contract milestones
 - good progress on cost transformation
- ▶ Operating cash flow £78m
 - down £62m due to timing of contract-related receipts

	Q3 2013/14	Change
Revenue	£1,794m	3%
- u/l ex transit		4%
EBITDA	£263m	22%



Global Services - growth in 12 month rolling order intake

- ▶ £1.5bn orders in quarter, down 24%
 - 12 month rolling up 4%

HEIDELBERGCEMENT

- ▶ Global network serving 1,100 locations in 37 countries



BT Connect

Aalsea 

- ▶ Contact centre services for Latin America's leading restaurant operator



BT Contact

TESCO

- ▶ Collaboration services for Tesco's global workforce



BT One

Retail - encouraging performance

- ▶ Underlying revenue ex transit up 3%
 - best performance for 5 years
- ▶ EBITDA down £40m YoY
 - c.£140m BT Sport investment
 - costs down c.3% ex BT Sport
- ▶ Solid operational progress
 - broadband net adds up 23% to 150,000, a 60% market share
 - 228,000 retail fibre net adds, now c.1.9m customers
- ▶ Stronger BT Wi-fi usage following app upgrade
 - users up 28% in quarter

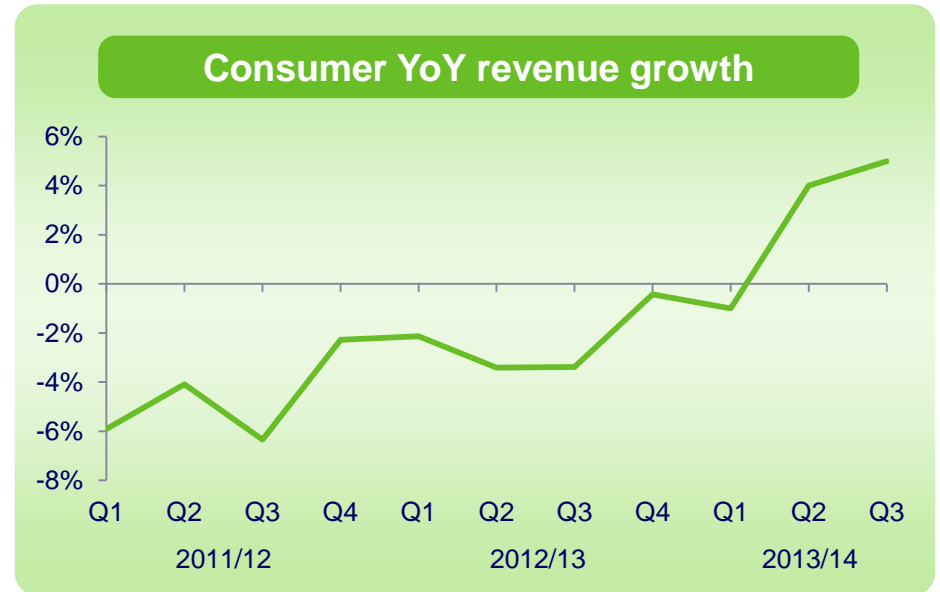
	Q3 2013/14	Change
Revenue	£1,875m	4%
- u/l ex transit		3%
EBITDA	£460m	(8)%



Consumer - improved revenue trend

- ▶ Best YoY revenue performance for >10 years
 - Broadband & TV up 22%
- ▶ >2.5m BT Sport customers
 - exclusive live broadcast rights to UEFA Champions League and UEFA Europa League from 2015
- ▶ Consumer line loss of 70,000
 - 60% better than prior year
- ▶ 53,000 BT TV net adds
 - more than double prior year

	Q3 2013/14	Change
Revenue	£1,007m	6%



Retail business units - steady progress

- ▶ Business revenue flat
 - 6% growth in IT services
 - 1% decline in calls & lines
- ▶ Enterprises underlying revenue flat
 - c.50% growth in Fleet
 - Conferencing down due to lower hardware sales
- ▶ Ireland underlying revenue ex transit up 3%
 - growth in both NI and RoI

Revenue	Q3 2013/14	Change
Business	£551m	flat
Enterprises	£191m	3%
Ireland	£192m	4%



Wholesale - difficult quarter, impacted by contract migration

- ▶ Underlying revenue ex transit down 5%
 - managed solutions down 4%
 - reflects completion of Post Office migration
 - 38% growth in IP services
- ▶ Operating costs ex transit down 5%
 - lower cost of sales and selling & admin
- ▶ Order intake £467m, up 12%
- ▶ Ofcom narrowband market review will impact from Q4

	Q3 2013/14	Change
Revenue	£589m	(9)%
- u/l ex transit		(5)%
EBITDA	£146m	(5)%



Openreach – stable performance, regulatory headwind

- ▶ Revenue down 1%
 - c.£70m impact from regulation
 - fibre revenue up 72%
- ▶ Operating costs down 2%
 - efficiencies offset additional engineers & higher volumes
- ▶ Fibre progress
 - >18m premises now passed
 - 339,000 net connections in Q3
 - c.2.4m premises now connected
 - investing further c.£50m in cities
- ▶ 72,000 increase in physical lines
 - 50% above Q3 2012/13

	Q3 2013/14	Change
Revenue	£1,274m	(1)%
EBITDA	£660m	flat

12 month rolling change in physical lines



Making progress against our strategic investments

Fibre



TV & Sport



IT services



Mobility



High-growth regions



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Q&A

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Back up

Income statement

£m	Q3 2013/14	Change	Key points
Revenue¹	4,599	2%	<ul style="list-style-type: none"> ▶ £12m benefit from FX & acquisitions ▶ transit down £45m
- underlying ex transit		2.4%	<ul style="list-style-type: none"> ▶ benefits of investments offsetting regulatory pressures, milestone timing
EBITDA¹	1,537	flat	<ul style="list-style-type: none"> ▶ investment in BT Sport offsetting cost transformation
Operating profit¹	867	4%	<ul style="list-style-type: none"> ▶ depreciation down 5%
Profit before tax¹	722	8%	<ul style="list-style-type: none"> ▶ lower depreciation and lower interest
EPS¹	7.3p	12%	
Specific items	(78)	20%	<ul style="list-style-type: none"> ▶ includes restructuring charges of £46m and net interest expense on pensions of £59m

Free cash flow

£m	Q3 2013/14	Change	Key points
EBITDA¹	1,537	(2)	
Capex	(568)	18	
Interest	(205)	5	
Tax ²	(152)	16	
Working capital & other	(58)	(290)	<ul style="list-style-type: none"> ▶ timing of working capital ▶ £60m deposit for UEFA broadcast rights
Normalised FCF	554	(253)	
Cash tax benefit of pension deficit payments	19	(138)	▶ prior year benefited from £2bn pension payment in March 2012
Specific items	(58)	38	▶ restructuring (£43m), property rationalisation (£7m)
Reported FCF	515	(353)	

¹ before specific items

² before cash tax benefit of pension deficit payments