



BT Group plc

Q2 2015/16 results

29 October 2015

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 2015/16 outlook, including growth in revenue, EBITDA and free cash flow; EPS and net debt; cost transformation; investment in our networks; growing dividends and continued share buyback; our investment in and demand for our BT TV and BT Sport offerings, and BT Sport Europe performance; fibre broadband take-up and our investment in fibre rollout.

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Gavin Patterson, Chief Executive



Q2 overview



- ▶ Good financial and operational performance
 - 2% growth in our main revenue measure



- ▶ Continued investment in fibre, with strong market-wide take-up
 - 5m take-up milestone achieved



- ▶ BT Sport Europe doing well
 - contribution ahead of our expectations



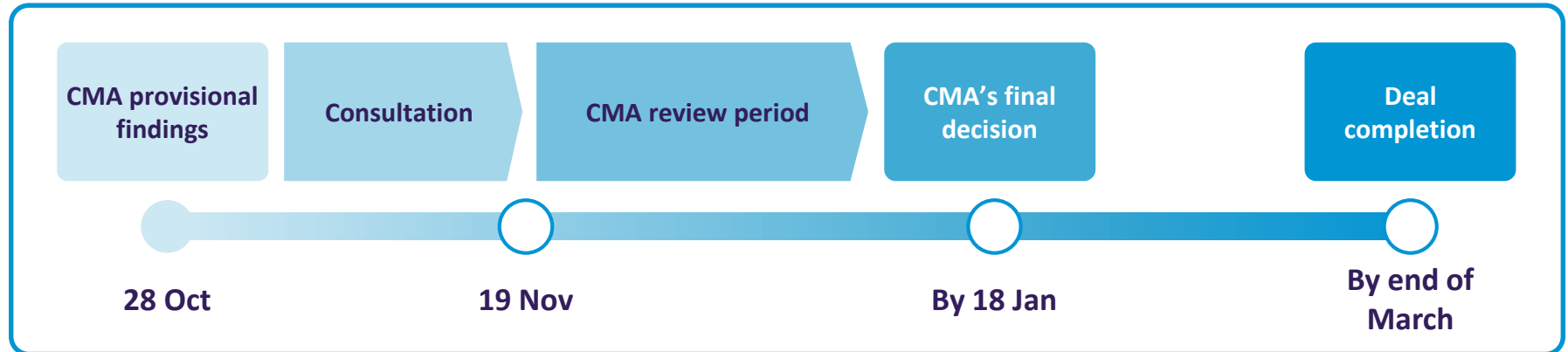
- ▶ On track for full year outlook

CMA provisional approval of EE transaction

CMA provisional findings:

- ▶ Provisional approval of the acquisition, without remedies
- ▶ Acquisition is not expected to result in a substantial lessening of competition

- ▶ We are pleased with the provisional approval
- ▶ BT and EE together will be good for the UK
 - providing investment
 - ensuring consumers and businesses benefit from innovation in highly competitive markets











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Tony Chanmugam, Group Finance Director



Q2 results on track for full year outlook

		YoY change	
Revenue¹	£4,381m	flat	
- underlying ² ex transit		2.0%	
EBITDA¹	£1,442m	(1)%	
EPS¹	6.9p	flat	
Normalised free cash flow³	£569m	up £36m	
Net debt	£5,919m	down £1,144m	

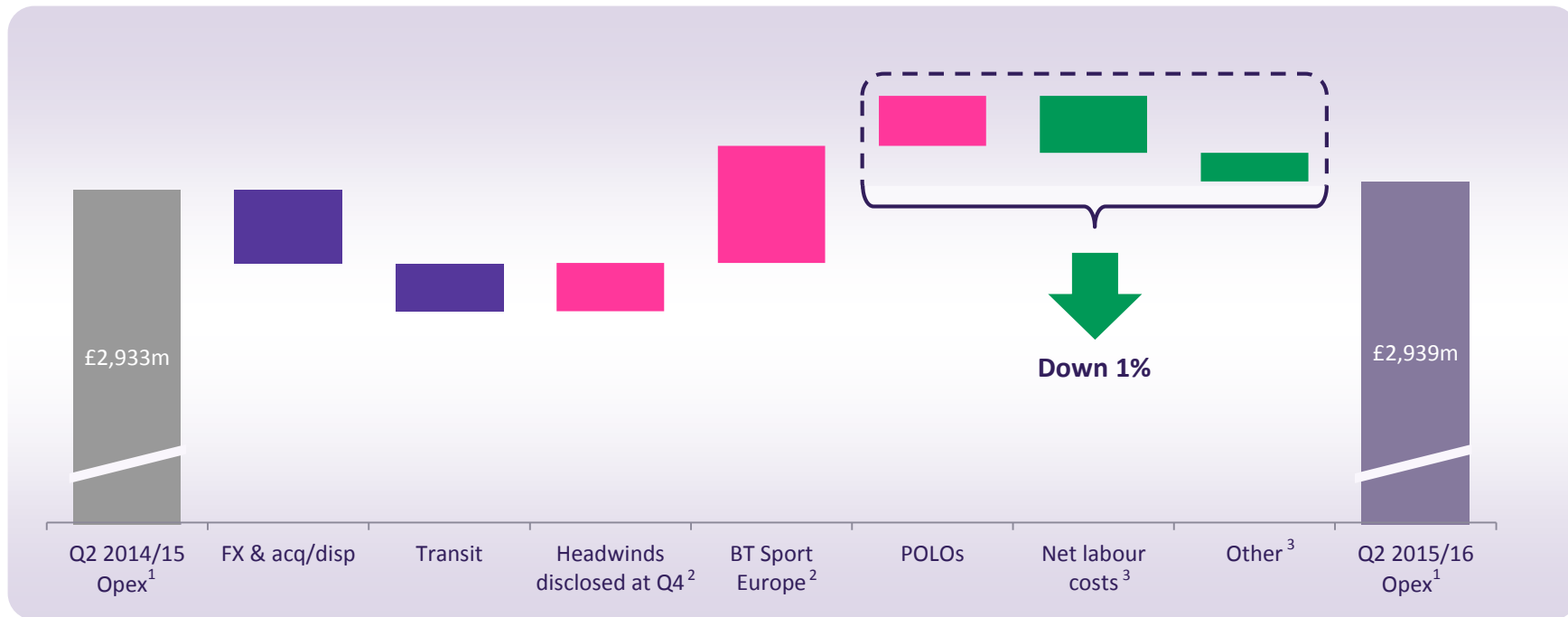
¹ before specific items

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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Operating costs reflect investments for growth



Underlying opex¹ ex transit up 3%; down 1% ex headwinds disclosed at Q4

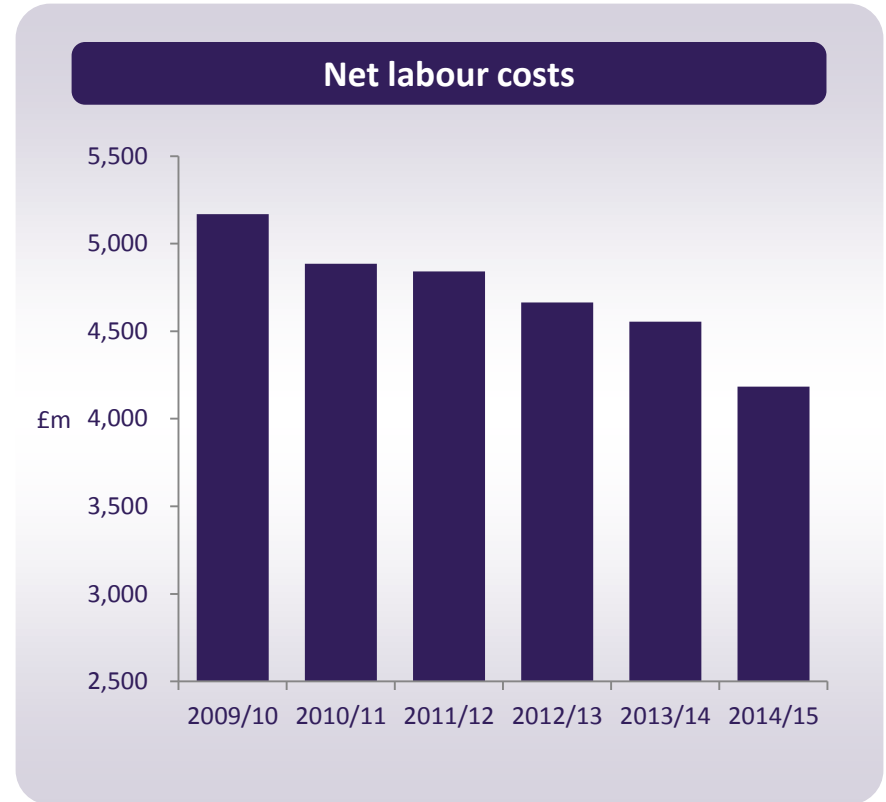
¹ before specific items and depreciation and amortisation

² headwinds disclosed at Q4: higher pensions operating charge, higher leaver costs and no benefit this year from the sale of redundant copper; investment in BT Sport Europe

³ excluding impact of headwinds

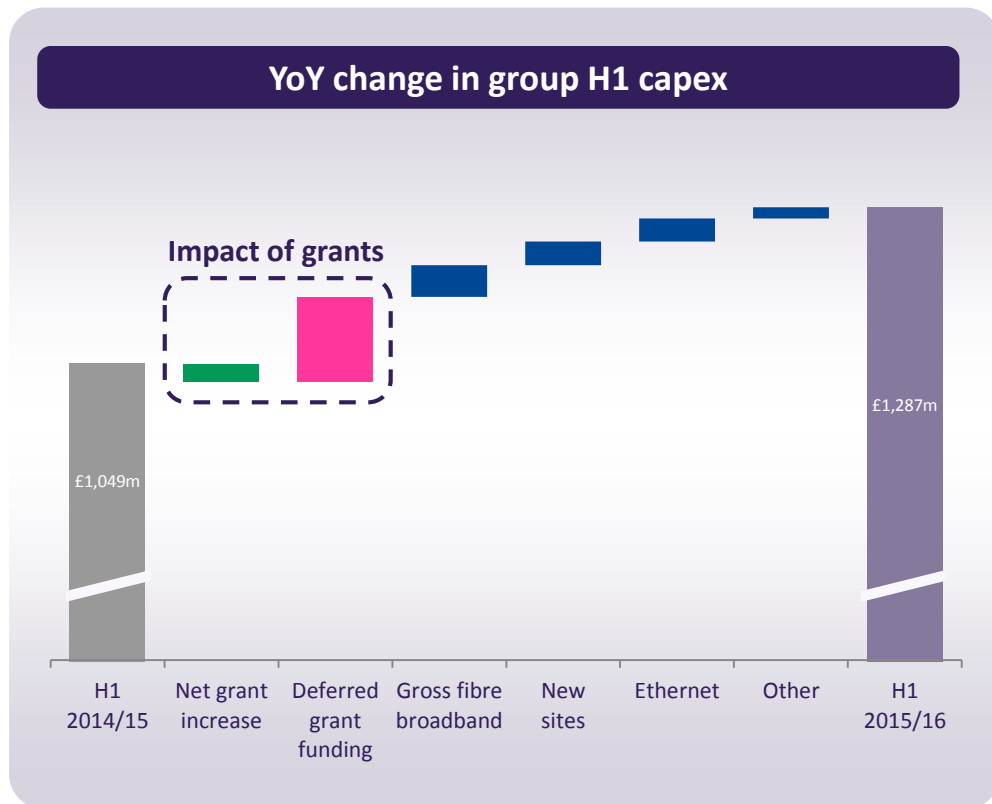
Cost transformation supporting investment in service

- ▶ Insourcing saves money, protects BT jobs, improves service
 - >13,000 jobs insourced since 2008/09
- ▶ Improving back-office efficiency
 - c.6,000 jobs created in Central Business Services unit in UK & overseas
- ▶ Investing in customer service
 - >1,000 new UK contact centre staff, >80% consumer calls answered in UK by end 2016
 - c.3,000 Openreach engineers hired in last 18 months



Continued investment in networks

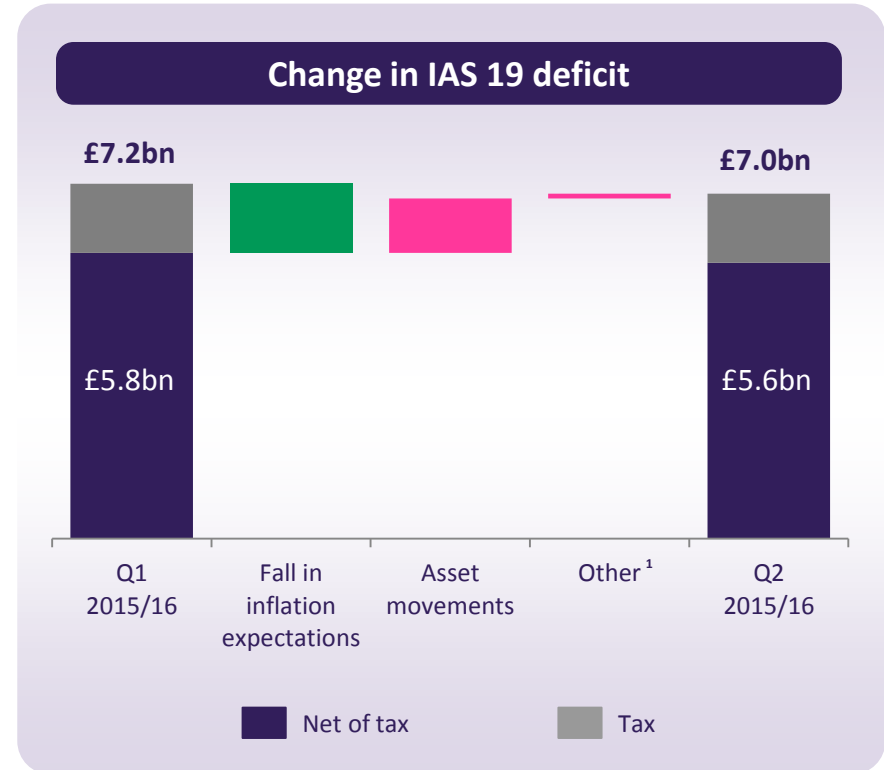
- ▶ Q2 capex £629m, up 18%
 - expansion of fibre network, connecting new sites, Ethernet provision
 - on-track to complete refresh of UK IP core network
- ▶ Total of £157m fibre grant funding now deferred, reflects strong take-up
 - expect vast majority to be re-invested to improve reach and quality of network
- ▶ H1 capex up 10% excluding deferral
 - largely timing in prior year
- ▶ Openreach capex to be higher in 2015/16 than 2014/15



Pension

- ▶ IAS 19 deficit £5.6bn net of tax (Q1 2015/16: £5.8bn)
- ▶ Reduction in liabilities due to lower future inflation expectations
- ▶ Largely offset by decline in asset values due to market conditions

IAS 19, £bn	30 June 15	30 September 15
Liabilities – BTPS	(49.7)	(48.2)
Assets – BTPS	42.8	41.5
Other schemes	(0.3)	(0.3)
Deficit – gross of tax	(7.2)	(7.0)
Deficit – net of tax	(5.8)	(5.6)



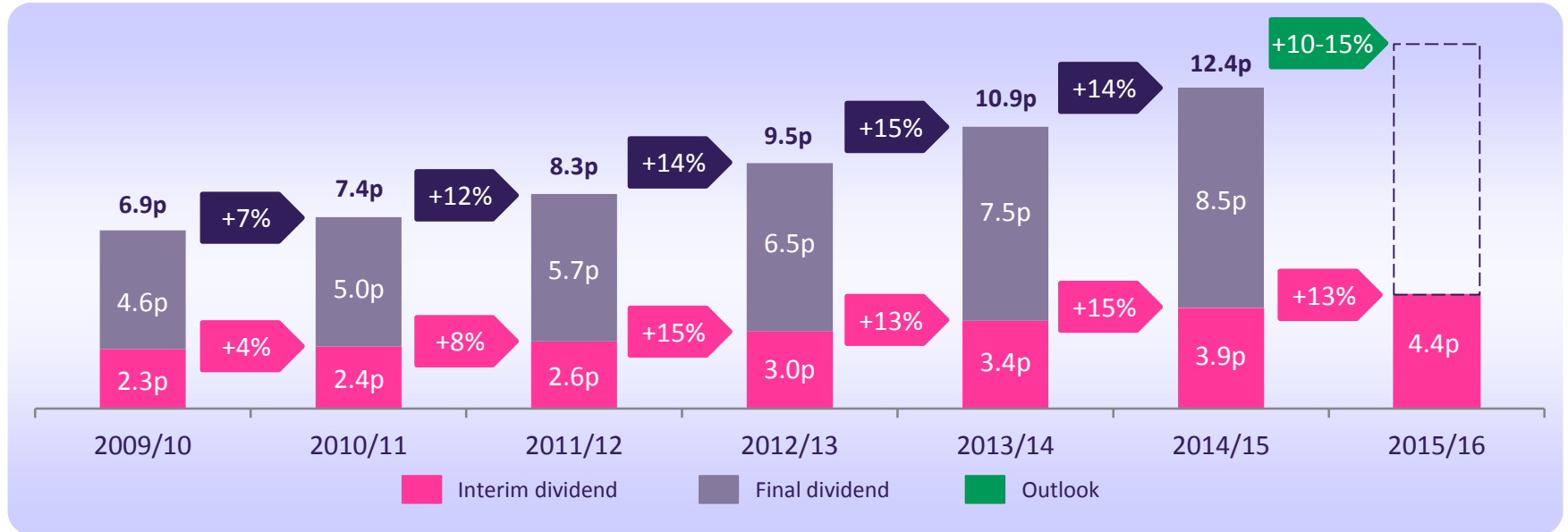
BTPS – BT Pension Scheme

¹ includes service cost, regular contributions and interest on deficit

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Shareholder returns

Dividend per share



► Share buyback

- £61m spent in Q2, £250m year to date
- continue to expect to spend c.£300m for the year

2015/16 outlook¹ unchanged

Underlying revenue² ex transit

Growth

EBITDA³

Modest growth

Normalised free cash flow⁴

Around £2.8bn

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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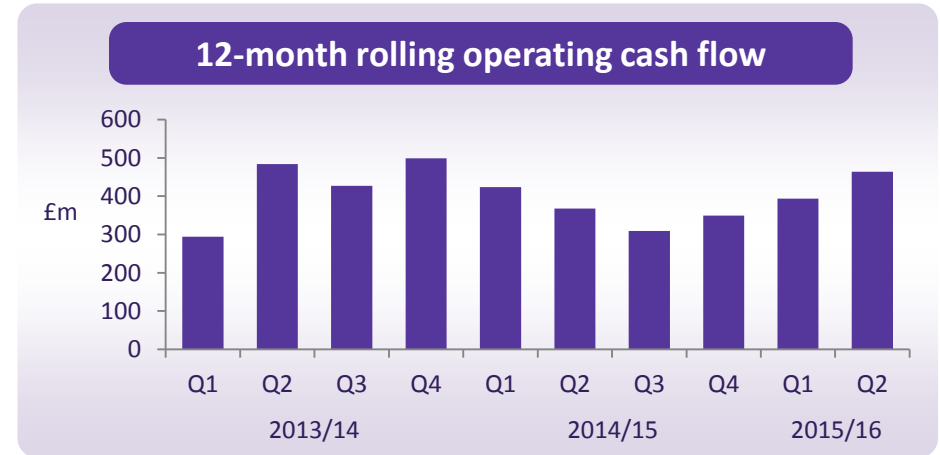
Gavin Patterson, Chief Executive



Global Services – a better performance

- ▶ Underlying revenue ex transit down 2%
 - improvement on recent quarters
 - strong in continental Europe, up 12%; Q1 up 2%
 - UK down 8%; Q1 down 12%
- ▶ Underlying operating costs ex transit down 2%
- ▶ EBITDA down 3% ex FX
 - major health programmes moved into service and maintenance phase end of last year
 - leaver costs of £5m (Q2 2014/15: £nil)
- ▶ Expect H2 EBITDA to grow
- ▶ Steady improvement in operating cash flow
 - £78m better YoY
- ▶ New products launched
 - cloud-based services
- ▶ Good order intake, up 36%
 - 12-month rolling up 16%

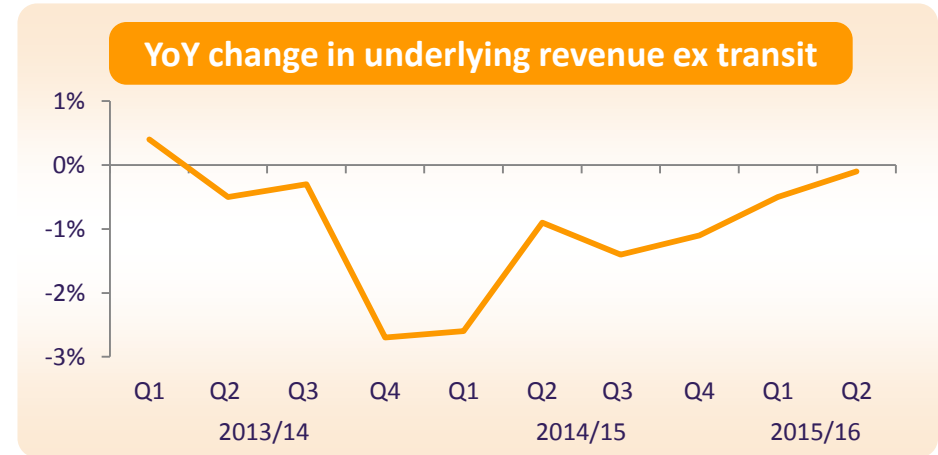
	Q2 2015/16	YoY change
Revenue	£1,559m	(5)%
- u/l ex transit		(2)%
EBITDA	£216m	(4)%



Business – steady financial performance

- ▶ Underlying revenue ex transit flat
 - improvement on recent quarters, voice down just 1%
 - another good quarter from BT Ireland, up 14%
 - data & networking up 3%
 - IT services down 4%
- ▶ IP lines grew 49%
 - driven by BT Cloud Voice and BT Cloud Phone
 - helping to offset decline in PSTN lines
- ▶ Underlying operating costs ex transit down 1%
- ▶ EBITDA up 1%
- ▶ Operating cash flow down 7%
 - working capital timing
- ▶ Good order intake, up 16%
 - 12-month rolling up 1%

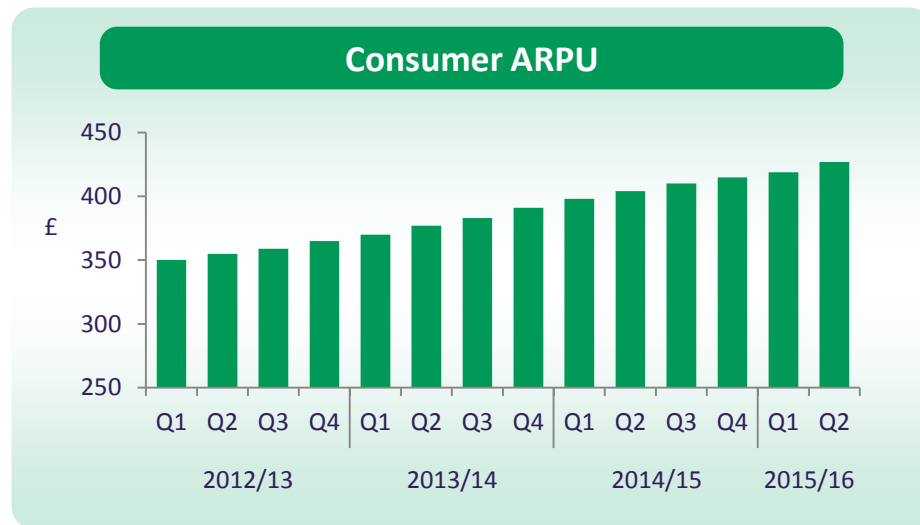
	Q2 2015/16	YoY change
Revenue	£781m	(1)%
- u/l ex transit		flat
EBITDA	£261m	1%



Consumer – strong quarter, defined by BT Sport Europe

- ▶ Revenue up 7%
 - broadband and TV up 17%
 - ARPU up 6% to £427
- ▶ EBITDA down 10%
 - launch costs of BT Sport Europe and AMC
- ▶ Operating cash flow of £53m, down 50%
 - timing of rights payments
- ▶ Now have >200,000 BT Mobile customers
- ▶ 52,000 consumer line loss
 - second best in over 5 years
- ▶ 82,000 retail broadband net adds¹
 - 51% of market² growth
 - 212,000 retail fibre net adds

	Q2 2015/16	YoY change
Revenue	£1,127m	7%
EBITDA	£202m	(10)%



¹ includes business customers

² DSL & fibre

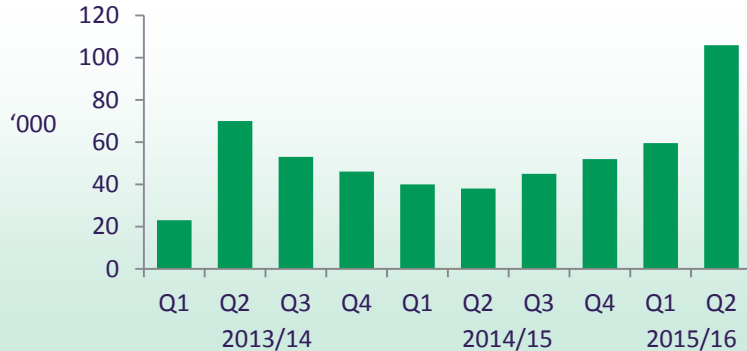
Consumer – best-ever BT TV net additions

BT TV

- ▶ 106,000 customers added in quarter
- ▶ Continuing to enhance offering
 - AMC channel launched; >1/3 of potential audience has viewed channel
 - BT TV now includes all UKTV channels
 - 182 channels in total



BT TV net adds



BT Sport

- ▶ Average daily viewing up 47%
 - Premier League viewing continues to grow YoY
 - MotoGP race viewing up 56%
- ▶ Australian home cricket rights for 2016-21
 - includes the 2017/18 Ashes series against England

- ▶ BT Sport Europe launched on 1 August



- majority of consumer and commercial customers taking the full range of channels
- Q2 contribution ahead of our expectations

- ▶ Launch of **BT Sport ULTRA HD**

- ▶ BT Sport app relaunched

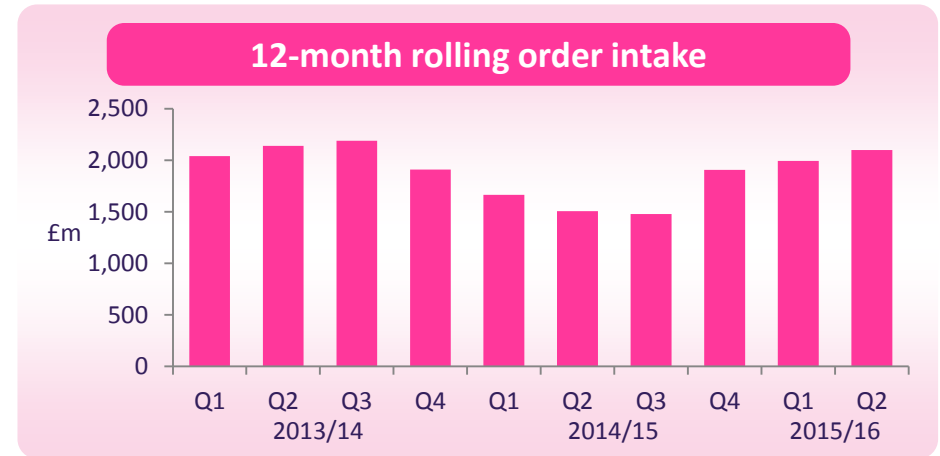


- unique monthly visits up 30%

Wholesale – good performance

- ▶ Underlying revenue ex transit up 3%
 - good growth in IP services, up 22%
 - Ethernet orders second highest ever
 - IP Exchange minutes up 23%
- ▶ Underlying operating costs ex transit up 4%
 - higher volumes in IP services
 - partly offset by a 15% decline in SG&A costs
- ▶ EBITDA up 2%
- ▶ Operating cash flow of £63m, up £3m YoY
- ▶ Order intake £349m, up 40%
 - 12-month rolling up 39%
- ▶ Strong take-up of Wholesale FTTC

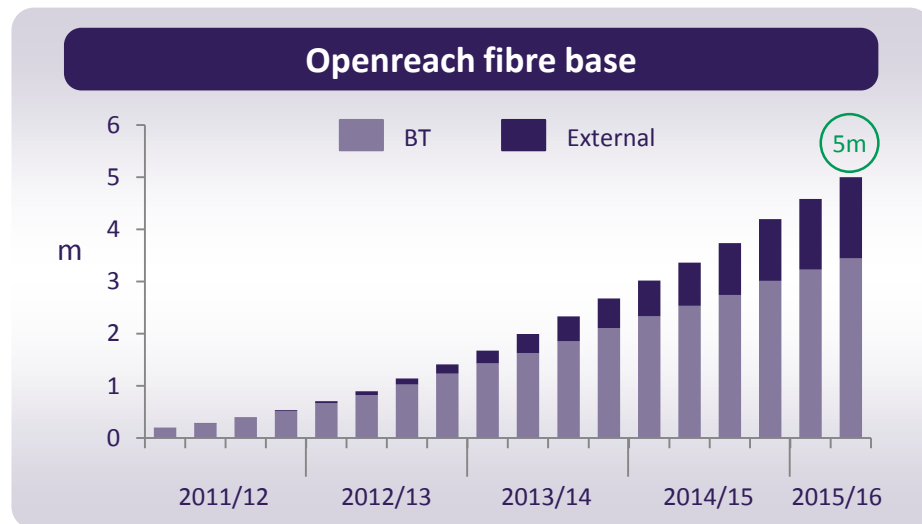
	Q2 2015/16	YoY change
Revenue	£520m	(2)%
- u/l ex transit		3%
EBITDA	£127m	2%



Openreach – strong fibre progress

- ▶ Revenue up 2%
 - 38% growth in fibre broadband
 - partly offset by c.£30m impact from regulation
- ▶ Operating costs flat
- ▶ EBITDA up 3%
- ▶ Capital expenditure up 41%
 - fibre broadband, new homes and Ethernet
- ▶ Operating cash flow of £329m, down 3%
- ▶ Physical line base up 7,000
 - up 188,000 over past 12 months
- ▶ 415,000 net fibre connections, up 21%
 - 5m premises connected, 21% of those passed

	Q2 2015/16	YoY change
Revenue	£1,267m	2%
EBITDA	£648m	3%

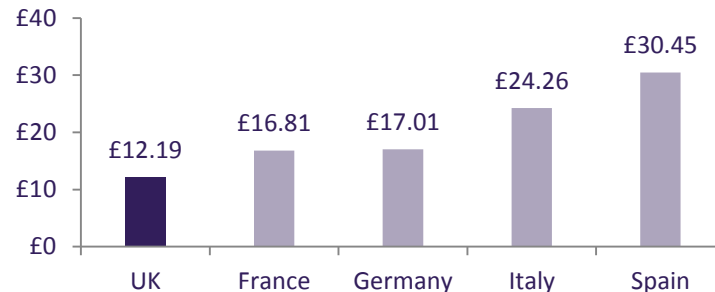


Ofcom's Strategic Review of Digital Communications

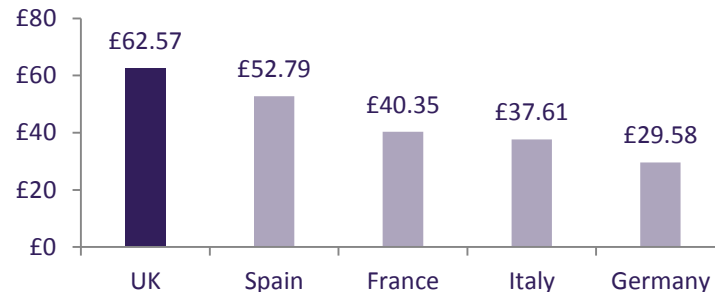
What do we want from the review?

- ▶ Certainty
 - regulatory timescales aligned to network investment horizon
- ▶ Clarity
 - a simple and robust framework
- ▶ Fairness
 - companies able to generate an appropriate return on investment
 - Ofcom should look at pay-TV market

Broadband pricing¹



Pay-TV pricing¹

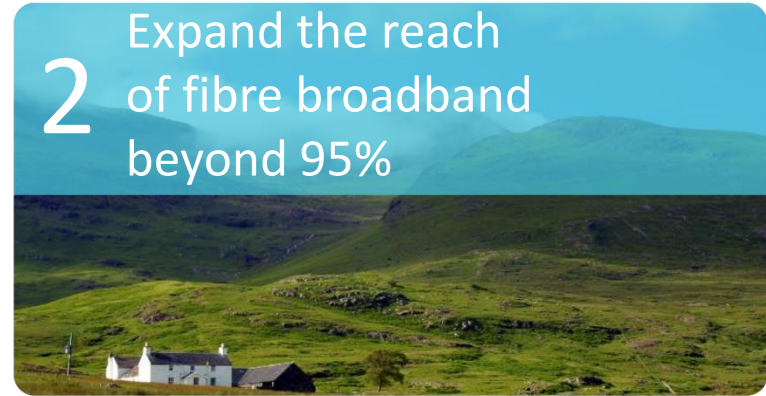
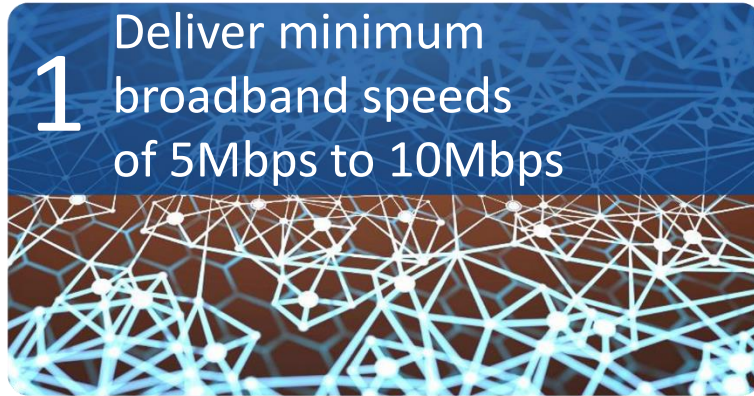


¹ Monthly prices in the 'Big 5' European economies; source: Ofcom International Communications Market Report, December 2014

Broadband: Comparative stand-alone 'lowest available' fixed-line broadband pricing; family household with multiple needs

Pay-TV: Premium pay-TV with HD and PVR

Four pledges to support the UK's digital future



Q2 summary

- ▶ Good financial performance
 - better revenue performance; ongoing cost focus
- ▶ Operational trends show our strategy is working
 - growth in TV, sport and mobile; innovative business products driving orders
- ▶ Improving service is a priority
 - making good progress
- ▶ Fibre going from strength to strength
- ▶ We stand ready to invest further to shape the UK's digital future

Investing in a strong platform for growth



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Q&A





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Appendix



Income statement

£m	Q2 2015/16	YoY change	Key points
Revenue¹	4,381	flat	<ul style="list-style-type: none"> ▶ £53m negative impact from FX ▶ £33m reduction in transit revenue
- underlying ex transit		2.0%	▶ driven by Consumer, Openreach and Wholesale
EBITDA¹	1,442	(1)%	▶ decline reflects UEFA launch costs
Operating profit¹	819	(2)%	▶ depreciation and amortisation up 1%
Profit before tax¹	706	2%	▶ net finance expense down 22%
EPS¹	6.9p	flat	▶ average number of shares in issue up 4%
Specific items²	(52)	(51)%	▶ mainly net interest expense on pensions of £56m

¹ before specific items

² net charge after tax

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Free cash flow

£m	Q2 2015/16	YoY change	Key points
EBITDA¹	1,442	(8)	
Capex	(595)	(74)	▶ increase in fibre roll-out, connecting new homes, higher volumes of Ethernet provision
Interest	(65)	22	▶ lower net debt
Tax ²	(91)	45	▶ benefit from large share option maturity in Aug 2014
Working capital & other	(122)	51	
Normalised FCF	569	36	
Cash tax benefit of pension deficit payments	46	27	▶ reflects lump sum deficit payments
Specific items	(30)	45	▶ mainly £14m restructuring costs, £8m EE acquisition-related costs
Reported FCF	585	108	

¹ before specific items

² before cash tax benefit of pension deficit payments

Debt and Liquidity

- ▶ Net debt of £5.9bn
 - up £100m since 30 June 2015
- ▶ Cash & investments of £1.8bn
- ▶ £0.8bn debt matured in July
 - further £0.4bn repayable in rest of 2015/16
- ▶ Committed undrawn facilities of >£5bn
 - includes £3.6bn facility for planned EE acquisition