Global Communications GAAP Summit 2013
Sheraton Golf, Rome
17-18 June
Fi Dolan
Welcome and introduction
Welcome and introduction
The 10th Global Communications GAAP Summit

<table>
<thead>
<tr>
<th>Year</th>
<th>Location</th>
<th>Number of delegates</th>
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<tr>
<td>2004</td>
<td>London</td>
<td>50</td>
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<tr>
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<td>2006</td>
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<tr>
<td>2013</td>
<td>Rome</td>
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</table>
Telling your story – Accounting for Telcos in 2014

“If I Had More Time I Would Write a Shorter Letter”

Blaise Pascal
Telling your story – Accounting for Telcos in 2014

- Loss of trust
- Increased regulation / complexity
- Technology and information overload
- Competition for capital
- Telling your story

June 2013
This is your summit...
Today

Agenda
Monday 17 June

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.30 - 16.15</td>
<td>Registration</td>
</tr>
<tr>
<td>16.15 – 16.30</td>
<td>Introduction and welcome</td>
</tr>
<tr>
<td>16.30 – 18.00</td>
<td>Integrated Reporting – telling your story</td>
</tr>
<tr>
<td>18.30</td>
<td>Buses depart for dinner</td>
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# Tomorrow

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
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<tbody>
<tr>
<td>08.00 – 08.15</td>
<td>Introduction</td>
</tr>
<tr>
<td>08.15 – 09.00</td>
<td>What’s new in accounting?</td>
</tr>
<tr>
<td>09.00 – 09.30</td>
<td>Telecom Italia: Market update</td>
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<td><strong>09.30 – 10.00</strong></td>
<td><strong>Coffee break</strong></td>
</tr>
<tr>
<td>10.00 – 11.15</td>
<td>Workshop 1: The new revenue standard</td>
</tr>
<tr>
<td>11.15 – 12.00</td>
<td>Deutsche Telekom: Implementation project, revenue recognition</td>
</tr>
<tr>
<td>12.00 – 12.30</td>
<td>Spending wisely - does the market understand the Telco growth story?</td>
</tr>
<tr>
<td><strong>12.30 – 13.45</strong></td>
<td><strong>Lunch</strong></td>
</tr>
<tr>
<td>13.45 – 15.15</td>
<td>Workshop 2: To buy or to lease?</td>
</tr>
<tr>
<td><strong>15.15 – 15.45</strong></td>
<td><strong>Coffee break</strong></td>
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<tr>
<td>15.45 – 16.00</td>
<td>Closing remarks</td>
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Administration
Integrated Reporting – telling your story

Peter Hogarth
Are you getting your message across?
Are there gaps in the annual report?

Source: Ocean Tomo 2010, “Intangible Asset Market Value Study”
There are many other sources of information

“Today the data we have available to make predictions has grown almost unimaginably large: it represents 2.5 quintillion bytes of data each day, enough zeros and ones to fill a billion books of 10 million pages each”

Nate Silver, author of “The Signal & the Noise”
And yet length and complexity is a problem
Growth in regulation

1993: 370 pages

2013: 3,382 pages
‘How’ is as important as ‘what’: joining the dots

Pieces of information without connectivity

Number of pieces=40

Close-up pictures (partial connectivity) without big picture

Number of pieces=40

Big Picture

Number of pieces=40
Integrated reporting

“A process that results in communication by an organisation about value creation over time.”

“An integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.”

(IIRC Consultation Paper, April 2013)
Key differences to current reporting

- **Broader scope** – Financial and non-financial ‘capitals’, including stakeholder relationships, as drivers of long term value
- **Integrated thinking** – Bringing together different parts of the business
- **Integrated information** – Business model, market drivers, strategy, risk, remuneration, governance, performance.
- **Aligning internal and external** – Alignment between internal and external measurement and reporting processes
Investor perspectives
What do investors look for in annual reports?

- Apply the following principles:
  - Reflect economic reality – substance over form
  - Transparent and comprehensive disclosure
  - Clear, understandable, consistent and relevant
- And help them to understand:
  - How profitable is the business?
  - How much cash is it generating?
  - What assets are being employed?
  - What risks are being taken?

Source: Corporate Reporting Users Forum
Why bother? The Coloplast experiment
Where do investors think reporting could improve?
Some quick wins - Segmental disclosure

- Investors analyse businesses from the bottom up
- Alignment with management reporting is helpful, but aggregation has to make sense
- Going beyond the minimum required disclosure (e.g., operating cash flow by segment) makes a real difference
Winning the competition for capital: Cash and debt disclosure

- Clearer explanations and reconciliations in the cash flow statement
- More detail on capital expenditure
- Net debt reconciliations are highly valued
- Debt maturity tables could be improved beyond the IFRS requirements (although sector as a whole does well here)
- Covenant restrictions and terms would be helpful
Investor views

Global Communications GAAP Summit

PwC
Cutting the clutter: a practical approach

Jenny Harrison – BT Group

Gigliola Bonino – Telecom Italia
BT’s Annual Report
Our Journey

Jenny Harrison
Head of External Reporting
June 2013
Our purpose

We believe in the power of communication to make a better world

- We are improving our business. Our people, brand, networks and technology set us apart
- We make a major contribution to society, businesses and communities
- We have the financial strength to invest for the future while rewarding our stakeholders
Our annual reports through the years
A real challenge – the length of the report

Our annual report length has increased from 176 to 196 pages over the last 7 years. Our challenges - How is it best to cut the length? And how do we ensure readers see what is important within this?

Financial statements: Between 94 and 107 pages over period

Business review: Increase from 72 to 97 pages over this period
Extra information – when is ‘more’ worthwhile?

We have also added detail to help users interpret information held in the financial statements. The net debt maturity profile was well received.

Net debt

Net debt was £7.979 billion at 31 March 2013, down £1.285 billion.

We intend to continue our policy of reducing net debt and are targeting a BBB+/Baa1 credit rating.

Our net debt calculation is based on the expected future undiscounted cash flows due to arise on the maturity of financial instruments. This is adjusted for the re-measurement of hedged risks under fair value hedges and the use of the effective interest method. Currency denominated balances are retranslated to Sterling at swap rates where hedged.

Maturity profile of term debt (excluding leasing) and average coupon rate

At 31 March

<table>
<thead>
<tr>
<th>Year</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2.0%</td>
</tr>
<tr>
<td>2014</td>
<td>6.1%</td>
</tr>
<tr>
<td>2015</td>
<td>5.5%</td>
</tr>
<tr>
<td>2016</td>
<td>6.9%</td>
</tr>
<tr>
<td>2017</td>
<td>8.8%</td>
</tr>
<tr>
<td>2018</td>
<td>8.7%</td>
</tr>
<tr>
<td>2019</td>
<td>6.6%</td>
</tr>
<tr>
<td>2020</td>
<td>3.3%</td>
</tr>
<tr>
<td>2021</td>
<td>9.5%</td>
</tr>
<tr>
<td>2022</td>
<td>6.4%</td>
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</table>
Helping our readers

A picture can tell a thousand words.
More graphics – following emerging practice

• 2009 Annual Report
• Remuneration report

• 2013 Annual Report
• Remuneration report
Linking performance measures to strategy

Our strategy

Our aim is to deliver value to shareholders and customers by making BT a better business with a better future.

There are three foundations which build on one another to make BT a better business:
- Customer service delivery
- Cost transformation
- Investing for the future

The better we serve our customers, the less time and money we need to spend on putting things right.

By transforming our costs, we create opportunities for investing in our future.

By investing in our six strategic priorities, we aim to grow the value of our business.

Driving broadband-based consumer services
Being the ‘Brand for Business’ for UK SMEs
BT Global Services – a global leader
The wholesaler of choice
The best network provider
A responsible and sustainable business leader

A better future

Customer service delivery
Cost transformation
Investing for the future
A better business

Key performance indicators

We measure our overall progress using three key performance indicators. This year we grew adjusted earnings per share and achieved our normalised free cash flow target, but our customer service did not improve.

<table>
<thead>
<tr>
<th>Key Performance Indicator</th>
<th>Year Ended 31 March</th>
<th>Year Ended 31 March</th>
<th>At 31 March</th>
</tr>
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<tbody>
<tr>
<td>Adjusted earnings per share*</td>
<td>24</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Normalised free cash flow*</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Customer service improvement†</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
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*Adjusted earnings per share is stated before specific items.
†Normalised free cash flow is a non-GAAP measure.
‡Customer improvement from 3 April 2007.
Bringing the story to life – use of case studies
A range of media
Reduction in printed, hard copy distribution

Numbers distributed to shareholders in hardcopy

<table>
<thead>
<tr>
<th>Year</th>
<th>Full ARA</th>
<th>SFS</th>
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<tr>
<td>2008</td>
<td>6,300</td>
<td>1,055,000</td>
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<tr>
<td>2013</td>
<td>4,900</td>
<td>175,100</td>
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</table>

Fallen by 20% 83%

… while the online version of our 2012 annual report has had over three million hits
Gigliola Bonino
Head of Financial Reporting

Global Communications GAAP Summit

Rome, 17 June 2013
Alternative performance measures

Arjan Brouwer
Alternative profit measures

Adjusted operating profit was £11.5 billion, slightly down on last year (up 2.5% on an organic basis) supported by a good performance from our

**£11.5bn**

Adjusted earnings per share\(^a\)

Year ended 31 March

EBITDA, excluding non-recurring items margin (%)  
Operating income  
Operating income, excluding non-recurring items

Free cash flow (before dividend payments, spectrum investment).  
Normalised free cash flow  
Year ended 31 March
and many more other performance measures

Lost Time Injury Frequency (LTIF) 1)
Sickness Absence Rate
Fatalities Employees

Customer service improvement
tAt 31 March

Fixed & mobile voice ARPU
(in €)

<table>
<thead>
<tr>
<th>Year</th>
<th>Mobile</th>
<th>Fixed</th>
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<tbody>
<tr>
<td>2012</td>
<td>11.9</td>
<td>19.9</td>
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<tr>
<td>2011</td>
<td>12.5</td>
<td>18.7</td>
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<tr>
<td>2010</td>
<td>14.4</td>
<td>20.7</td>
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<tr>
<td>2009</td>
<td>15.5</td>
<td>21.6</td>
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<tr>
<td>2008</td>
<td>16.6</td>
<td></td>
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</tbody>
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PwC
June 2013
To mislead or to inform?

- Alternative performance measures are generally very relevant and useful when used in combination with defined measures.
- Inconsistent use of measures affects credibility and weight given by investors.
- Credibility and transparency of disclosures to be enhanced by:
  - Compliance with qualitative characteristics
  - Clear definitions and headings that reflect content of the measure
  - Presentation together with defined measures and provision of reconciliations
  - Consistency and comparatives
- Industry consensus on alternative measures used will enhance credibility and usefulness for investors.
Where are we now?
IIRC pilot programme
Headline findings

Discuss future market trends 83%
Link market discussion to strategic choices 40%
**IIRC pilot programme**

Headline findings

Make reference to their business model

Integrate business model into other areas of reporting

67%

40%
IIRC pilot programme
Headline findings

Identify one or more material capitals: 84%

Report priorities for non-financial capitals: 17%

Global Communications GAAP Summit
PwC

June 2013
Slide 51
**IIRC pilot programme**

Headline findings

- Report principal risks: 96%
- Integrate risks into other areas of reporting: 23%

Global Communications GAAP Summit
PwC

June 2013
Slide 52
IIRC pilot programme
Headline findings

Explicitly identify KPIs
71%

Identify targets for KPIs
47%

Some alignment of KPIs with strategy
17%
How does our industry measure up?
PwC European benchmarking 2012
“Integrated reporting has played an important role for Vodacom in formulating a new strategy; one that integrates key social, economic, environmental and stakeholder initiatives into our long-term objectives.”

“We are pleased with the feedback we received from stakeholders, many saying that they actually enjoyed reading [our integrated report]”

Belinda Williams, Group Executive for Investor Relations and Integrated Reporting, Vodacom
Tonight: Palazzo Colonna

Meet at the hotel entrance at 18:30 for a prompt departure
Thank you