BT Capital Markets Day

2015/16 results

5 May 2016

2015/16 results and Capital Markets Day

Damien Maltarp – Investor Relations Director

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 for 2016/17 and 2017/18 including revenue growth, EBITDA and free cash flow; dividend per share and share buy back; cost transformation and further cost savings; capital expenditure; our fibre rollout and broadband speeds; net debt reduction; the defined benefit pensions operating charge and net pension interest expense; the benefits of acquiring EE, EE integration and cost synergies; G.fast technology and FTTP trials; and BT TV and BT Sport offerings.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory and legal actions, decisions, outcomes of appeal and conditions or requirements in BT's operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs, or impact on customer service; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the timing of entry and profitability of BT in certain communications markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the anticipated benefits and synergies of the EE integration not being delivered; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Agenda

Timing	Session
09:30 – 11:10	Introduction, Group results, Line of Business results Group strategy and Outlook Q&A
11:10 – 11:30	Break (including demos)
11:30 – 13:00	Cost transformation and EE integration TSO Openreach Wholesale & Ventures Q&A
13:00 – 14:00	Lunch (including demos and ‘Meet the new CEOs’)
14:00 – 16:00	Consumer EE Global Services Business & Public Sector Q&A Closing remarks

Q4 and full year 2015/16 results

Sir Michael Rake - Chairman

A landmark year for BT

- Delighted with acquisition of EE

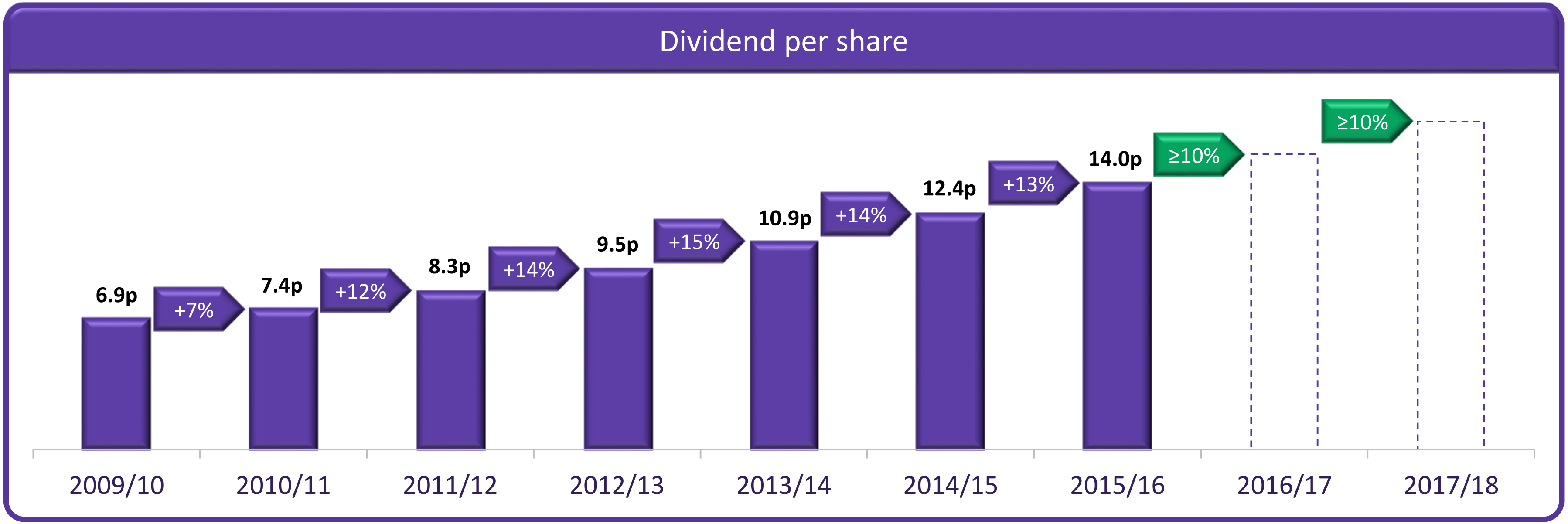
- Strong financial results
  - best revenue performance for >7 years

- Driven by the investments we're making

Our investments are delivering for the UK

- 90% of the UK has access to fibre broadband
  - on track to help Government hit its 95% target, and beyond
- The UK has the lowest prices and highest speeds of major European countries
- We're investing more in customer experience
  - we need to do better; we have ambitious goals
- We stand ready to invest much further in our networks
  - regulatory environment needs to be appropriate

And providing growing returns for our shareholders



- 9.6p proposed final dividend, up 12.9%, full year dividend of 14.0p, up 12.9%

Q4 and full year 2015/16 results

Tony Chanmugam – Group Finance Director

Strong financial performance

- Revenue growth at the top end of outlook range
  - best in >7 years
- EBITDA and cash flow in line with outlook
- Continuing progress on cost transformation, with more to come
- Investments in EE, fibre, BT Sport, BT Mobile and our new business products are all delivering

FY 2015/16 results in line with outlook

	BT excluding EE		
	Outlook[1]	FY 2015/16 results[1]	
Underlying[2] revenue ex transit	Up 1% - 2%	Up 2.0%	✓
EBITDA[3]	Modest growth versus £6,271m in 2014/15	£6,319m, up 1%	✓
Normalised free cash flow[4]	Around £2.8bn	£2,837m	✓

[1] excludes the impact of EE
[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

Q4 & FY 2015/16 group results[1]

	Q4		FY	
Revenue[2]	£5,656m	22%	£18,909m	6%
- underlying[3] ex transit		1.3%		2.0%
EBITDA[2]	£2,076m	14%	£6,580m	5%
EPS[2]	10.2p	2%	33.2p	5%
Normalised free cash flow	£1,519m	£252m	£3,098m	£268m
Net debt			£9,845m	up £4,726m

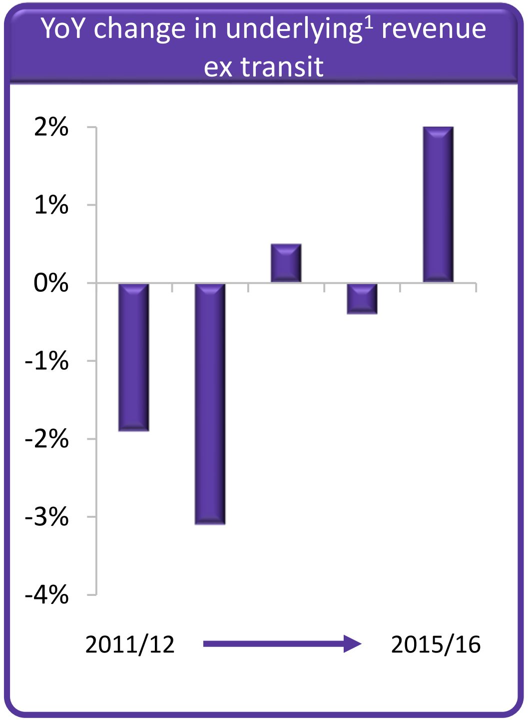
[1] includes EE from 29 January 2016
[2] before specific items
[3] excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

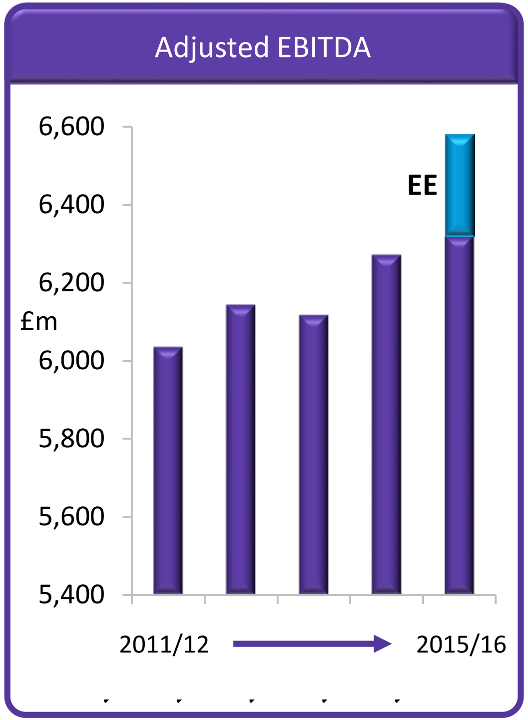
Q4 2015/16 results – separating out EE

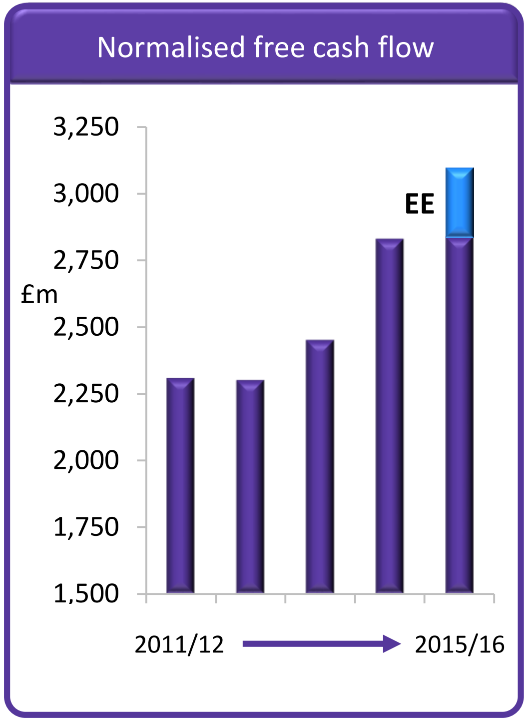
	BT	YoY change	EE	BT & EE
Revenue[1] - underlying[3] ex transit	£4,687m	+1% +1.3%	£1,055m	£5,656m[2]
EBITDA[1]	£1,815m	flat	£261m	£2,076m
Capex	£665m	(2)%	£111m	£776m
Normalised free cash flow	£1,258m	(1)%	£261m[4]	£1,519m

[1] before specific items
[2] consolidated revenue does not equal sum of components, due to internal revenue
[3] excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
[4] EE's operating cash flow of £310m less interest costs and integration capex

Strong growth in revenue, EBITDA and cash flow



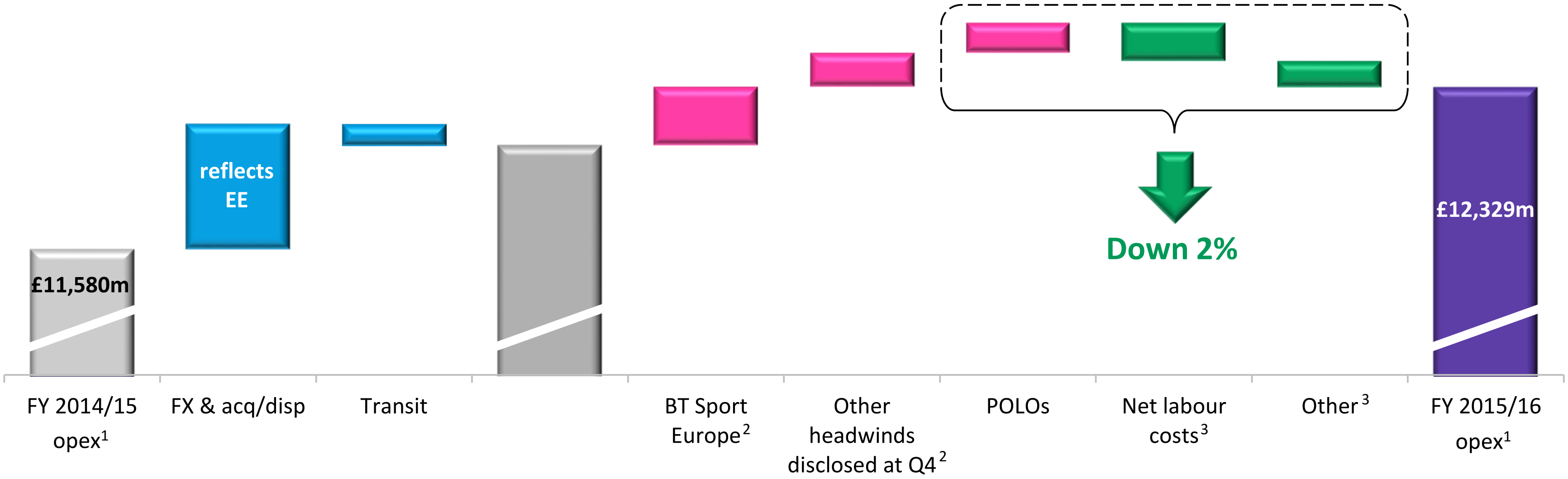




[1] excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

Change in operating costs reflect investments for growth

Underlying opex[1] ex transit up 2%; down 2% ex previously disclosed headwinds



[1] before specific items and depreciation and amortisation
[2] headwinds disclosed at Q4 2014/15: investment in BT Sport Europe, higher pensions operating charge, higher leaver costs and no benefit this year from the sale of redundant copper
[3] excluding impact of headwinds

We have significant cost transformation opportunities

Well over £1bn of gross opportunities + improved synergy expectations

>£1bn

gross opportunities over the next two years

+10% (from c.£360m to c.£400m)

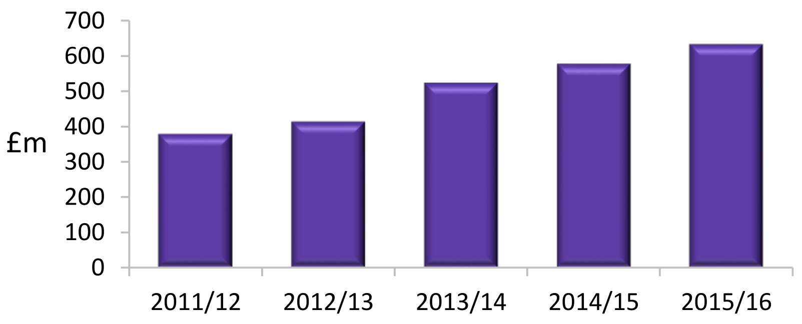
cost synergy expectations

Global Services – strong cash flow growth

- Q4 underlying revenue ex transit down 2%
  - ongoing decline in UK public sector
  - FY down 2%, improvement on last year's 4%
- Q4 EBITDA up 5%
  - up 1% excluding FX; up 5% for H2
  - revenue decline offset by cost transformation
- Strong FY operating cash flow of £475m
  - up 36% due to working capital, lower capex
- Further product developments
  - working with Intel on new cyber-security solutions
  - new SDN-based networking products
- FY order intake down 4%
  - 'new' and 'growth' orders up YoY

	Q4 2015/16	Change	FY 2015/16	Change
Revenue	£1,753m	(2)%	£6,530m	(4)%
- u/l ex transit		(2)%		(2)%
EBITDA	£366m	5%	£1,048m	flat

EBITDA less capex

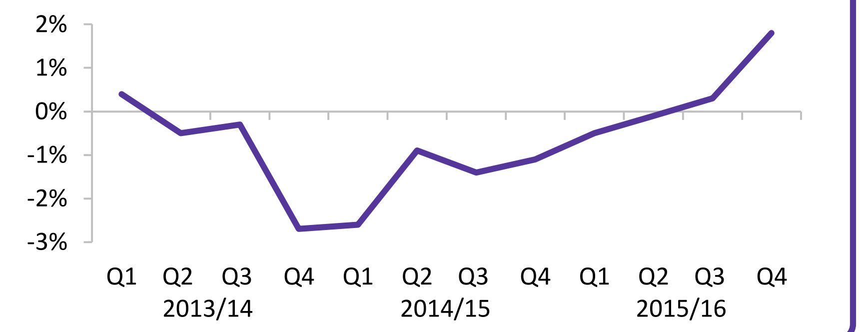


Business – improved revenue performance

- Good revenue performance
  - Q4 underlying revenue ex transit up 2%
- Strong growth in IP products
  - IP lines up 62%
  - BT Cloud Voice users up 29% and BT Cloud Phone users up 34% in Q4 alone
- Q4 EBITDA up 11%
  - helped by revenue strength
  - costs down 3%
- FY operating cash flow of £819m, down 6%
  - working capital timing
- FY order intake of £1,967m, down 5%
  - number of large deals in prior year

	Q4 2015/16	Change	FY 2015/16	Change
Revenue	£821m	2%	£3,130m	flat
- u/l ex transit		2%		flat
EBITDA	£307m	11%	£1,076m	3%

YoY movement in underlying revenue ex transit



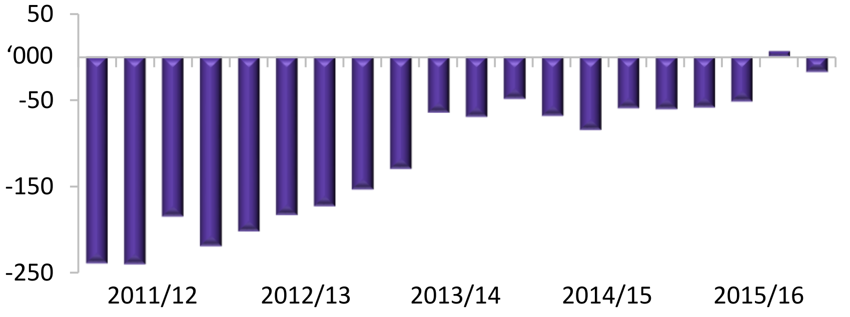
Consumer – a year of transformational growth

- Q4 revenue up 8%
  - broadband and TV up 20%
  - helped by BT Mobile, now >400,000 customers
- Q4 EBITDA down 2%
  - reflects BT Sport Europe costs, and
  - ongoing investment in customer service
- FY operating cash flow of £762m, down 6%
  - phasing of BT Sport Europe rights payments
- Good operational stats
  - Q4 consumer line loss[1] of 18,000; FY at 123,000, less than half prior year
  - 72% share of broadband net adds[1]
  - 204,000 fibre net adds[1]
  - 66,000 TV net adds[1]
- BT Sport audience up 45% season to date
  - passed 2m peak viewers for first time

[1] Excluding EE

	Q4 2015/16	Change	FY 2015/16	Change
Revenue	£1,192m	8%	£4,598m	7%
EBITDA	£311m	(2)%	£1,037m	1%

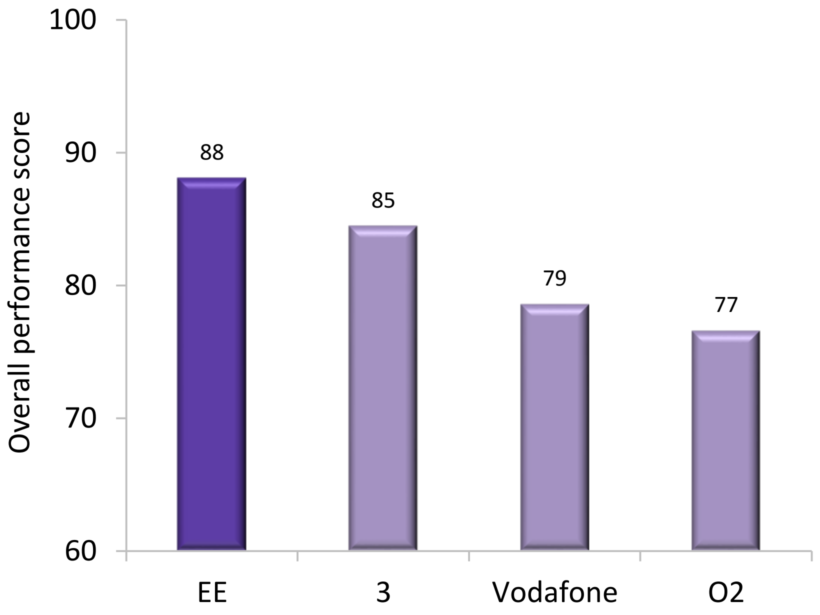
Quarterly change in Consumer lines



EE – a good first two months

- Acquisition completed 29 January
- Revenue £1,055m[1,2]
- EBITDA £261m[1]
- Strong operating cash flow of £310m[1]
  - benefit from working capital
- 54,000 postpaid mobile net additions[1]
  - postpaid churn 1.1%[1]
- The leading UK mobile network
  - tops five out of six RootMetrics rankings
  - tops five out of six OpenSignal rankings
  - fastest mobile network in Speedtest awards – 33.0Mbps vs 20.7Mbps nearest competitor

RootMetrics overall performance winner in H2 2015



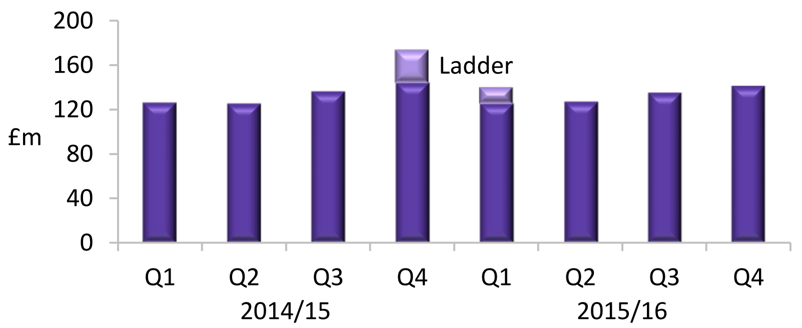
[1] since acquisition
[2] £17m internal revenue; £1,038m external revenue

Wholesale – Q4 decline reflects prior year ladder pricing

- Q4 underlying revenue ex transit down 8%
  - broadly level excluding c.£30m ladder pricing revenue in prior year
  - IP services revenue up 26%
- Q4 underlying operating costs ex transit down 3%
  - SG&A down 11%
- Q4 EBITDA down 20%
  - broadly level excluding ladder pricing revenue in prior year
- FY order intake of £1,505m, down 21%
  - major contract re-sign last year

	Q4 2015/16	Change	FY 2015/16	Change
Revenue	£509m	(11)%	£2,086m	(3)%
- u/l ex transit		(8)%		1%
EBITDA	£140m	(20)%	£542m	(3)%

Quarterly EBITDA

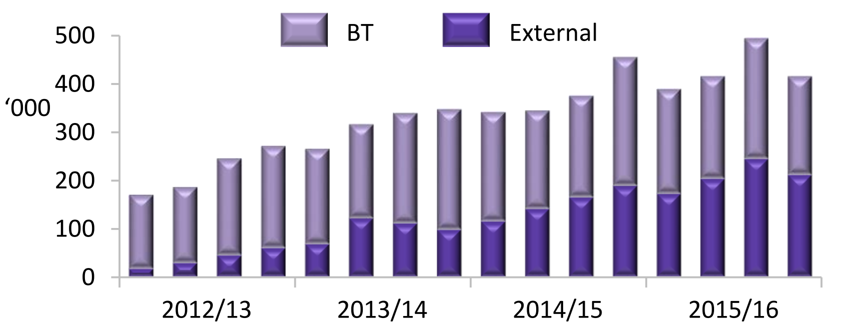


Openreach – steady financial performance

- Revenue up 2% for Q4 and FY
  - regulatory impact of c.£30m in Q4, equivalent to 2%; FY c.£130m
- Q4 operating costs up 4%
  - reflecting impact of floods
- Q4 EBITDA flat
  - up 2% for the year
- FY net capex up 34%
  - partly deferral of grant funding
  - gross capex up 5%
- 415,000 net fibre connections in Q4
  - down 9% due to tough prior year comparator
  - 5.9m homes and businesses now connected, 23% of those passed

	Q4 2015/16	**Change**	**FY 2015/16**	**Change**
Revenue	£1,290m	2%	£5,100m	2%
EBITDA	£700m	flat	£2,664m	2%

Openreach fibre net adds

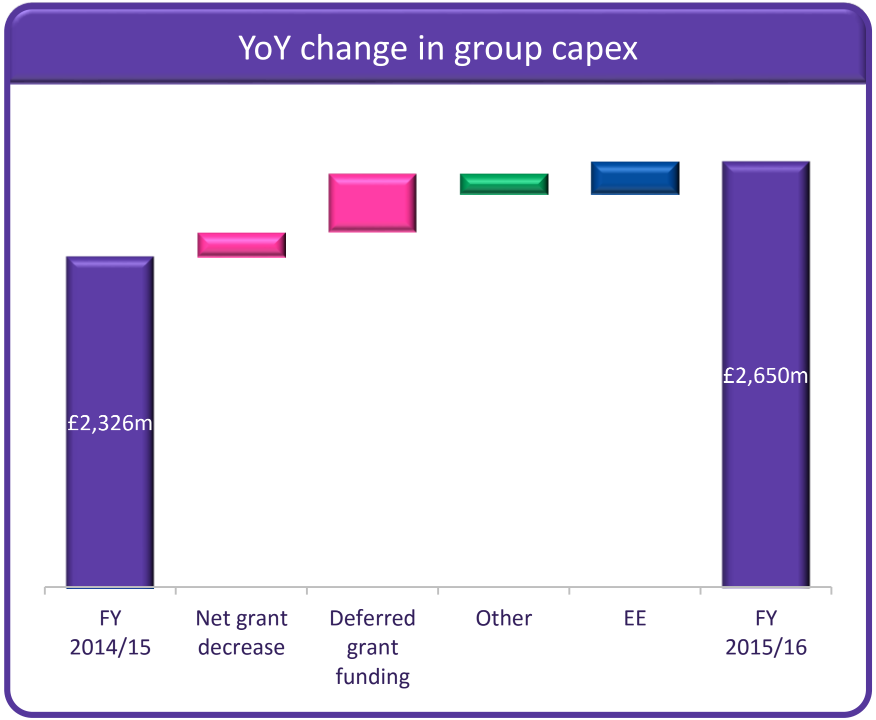


Fibre take-up assumption in BDUK areas increased again

	Q4 2014/15	Q1 2015/16	Q4 2015/16
BDUK take-up assumption	20%	30%	33%
Cumulative grant funding gainshare deferred	£29m	£129m	£258m

Capex

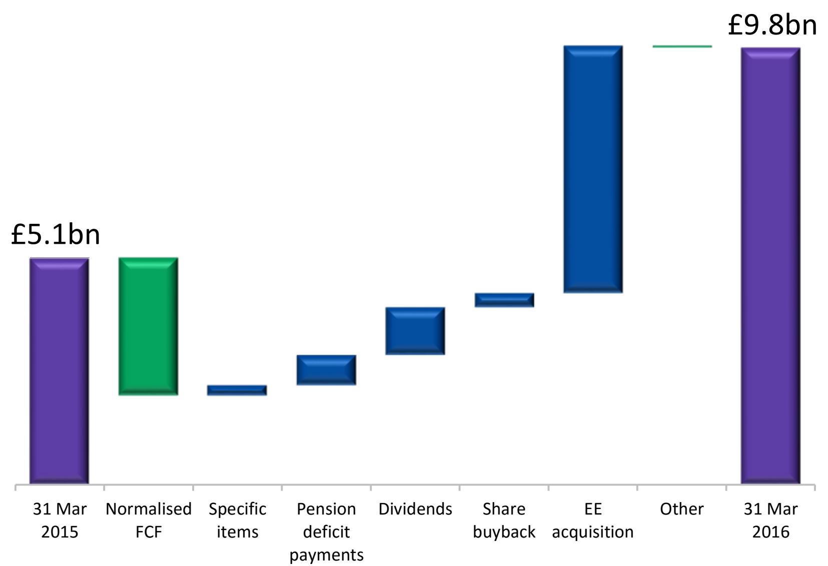
- FY capex £2,650m, up 14%
- £229m fibre grant funding deferred in 2015/16
  - expect vast majority to be re-invested to improve reach and quality of network
- FY capex broadly level ex EE and deferral
  - Openreach gross capex up 5%
  - lower BT Fleet capex plus efficiencies elsewhere
- D&A expected to be c.£3.6bn in 2016/17



Debt and liquidity

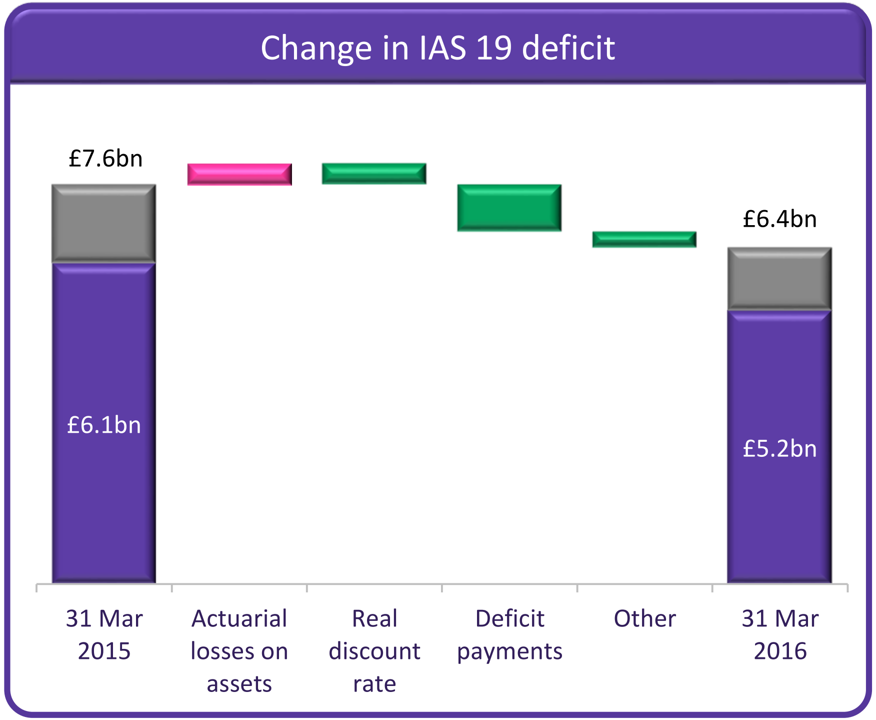
- Net debt up £4.7bn in year
  - £3.5bn cash element of EE acquisition and £2.1bn of EE net debt
  - partly offset by cash generation
- £3.0bn of bonds issued in Q4
- Cash and current investments of £3.4bn
- Undrawn £1.5bn facility
- Expect future reduction in net debt to reduce annual interest charges by c.£150m between 2016/17 and 2018/19

Change in net debt



Pension

- IAS 19 deficit £5.2bn net of tax (Q4 2014/15: £6.1bn)
  - decrease reflects deficit payments of £880m
- In 2016/17 we expect:
  - defined benefit operating charge to remain similar as a proportion of salary
  - net pension interest expense (specific item) of c.£210m (2015/16: £221m)



Regulation

BCMR / leased lines charge control

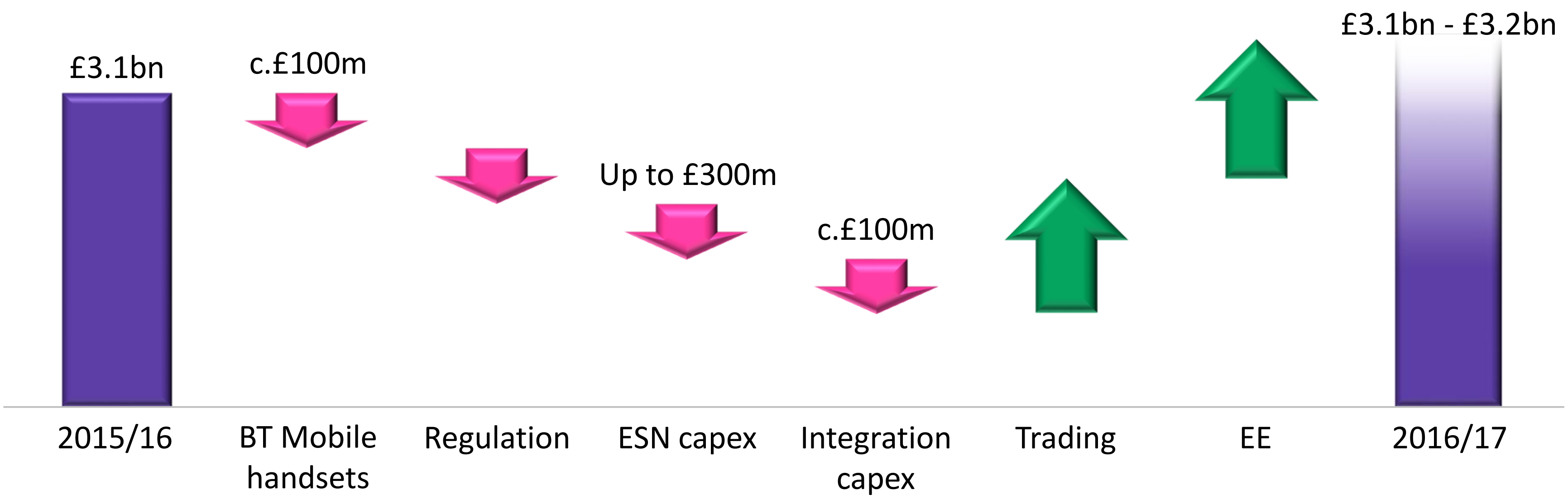
- Charge controls apply from 1 May 2016 to 31 March 2019
  - £175m – £200m expected impact on Openreach in 2016/17
- Minimum service levels for Ethernet provision and repair
- 'Dark fibre' for providers of high-speed leased lines for businesses from October 2017

Ofcom initial conclusions on DCR

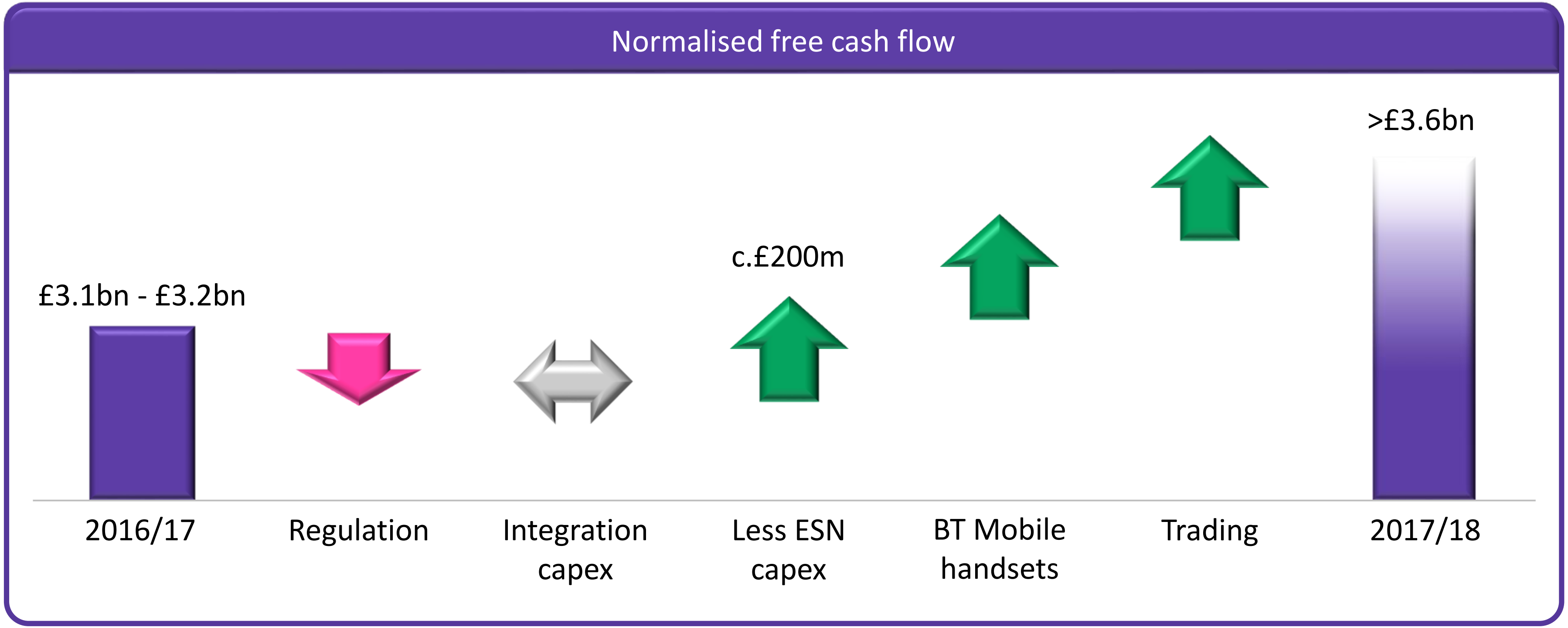
- Duct and Pole access to CPs
  - Openreach to provide digital network map
- Openreach governance
  - BT has proposed new governance structure
  - BT and Ofcom in discussion on strengthened, proportionate functional separation

2016/17 cash flow

Normalised free cash flow



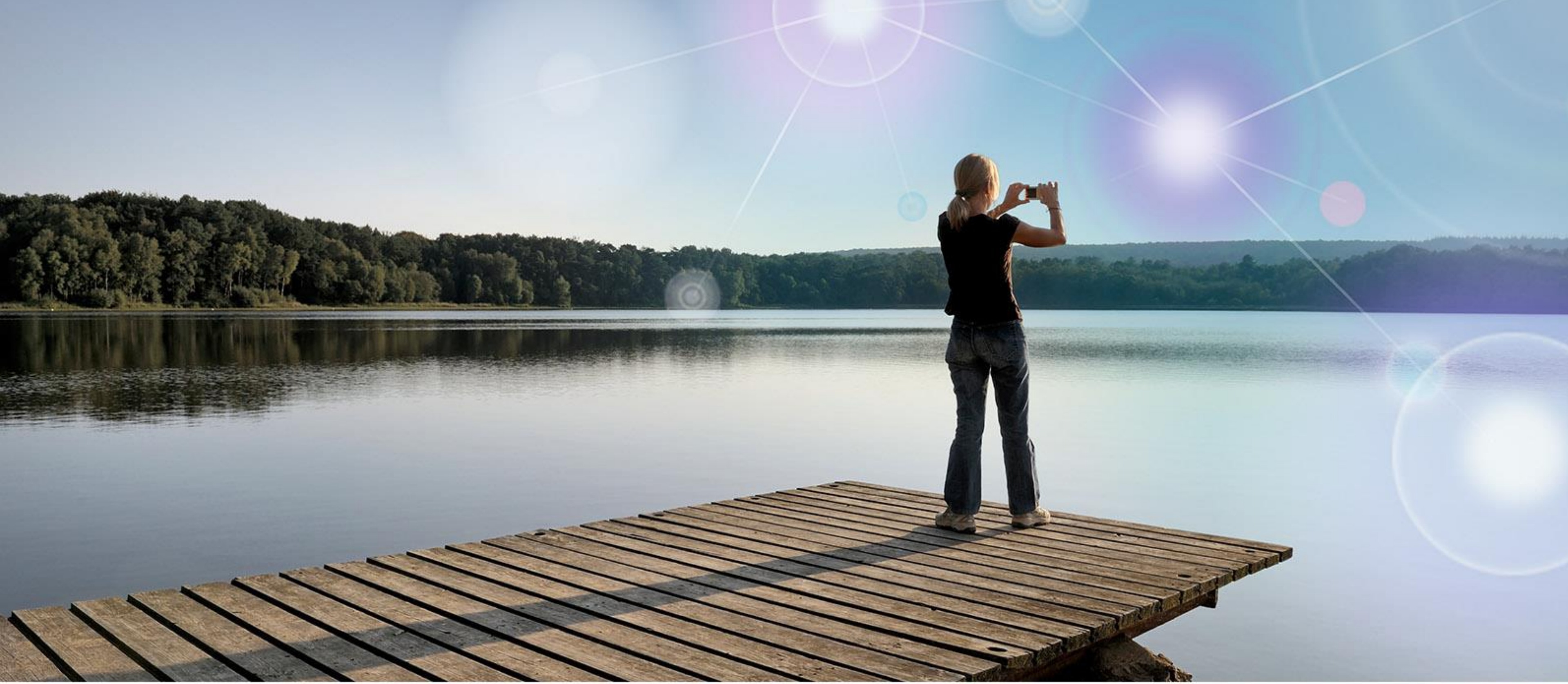
2017/18 cash flow



Outlook reflects our growth ambitions

	2016/17	2017/18
Underlying revenue ex transit[1]	Growth	Growth
EBITDA[2]	c.£7.9bn	Growth
Normalised free cash flow[3]	£3.1bn - £3.2bn	>£3.6bn
Dividend per share	≥10% growth	≥10% growth
Share buyback	c.£200m	

[1] excludes specific items, foreign exchange movements and the effect of acquisitions and disposals. Measured as though EE had been part of the group from 1 April 2015
[2] before specific items
[3] before specific items, pension deficit payments and the cash tax benefit of pension deficit payments



Group strategy and outlook

Gavin Patterson – Chief Executive

Purpose of our Capital Markets Day

1. Our strengths and competitive advantages
2. How we will capture growth opportunities
3. And grow the value of our business

We're improved our business since the last Capital Markets Day

Significantly improved revenue[1]: from a 3% decline to 2% growth

Taken £3bn out of our gross costs, helping us to fund our investments

Brought fibre to 10m more homes and businesses

Successfully launched BT Sport, bringing it to >5m households

Launched BT Mobile and acquired EE, the UK's leading mobile operator

Increased cash flow[2] by >20%

[1] Underlying revenue excluding transit

[2] Normalised free cash flow, excluding EE

Seizing the convergence opportunity

Delivering sustainable profitable revenue growth

- Creating the UK's leading converged operator
- Using our people, network and customer experience as a competitive advantage
- With significant further cost transformation
- Which will help fund our investments in growth

This has been our strategy for the last few years…

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

...which has served us well

Fibre

>25m **Premises**

c.85% of UK means 90% of UK can get superfast

5.9m **Connected**

23% take-up strong demand from all providers

TV and content

>5m **BT Sport homes**

BT Sport EUROPE

BT Sport ULTRA HD

1.5m +28% **TV subs**

BT TV

Mobility and future voice

400k **BT Mobile subs**

15m **EE 4G subs**

UK business markets

+62% **Growth in IP lines**

BT Cloud Voice
Get ahead with Unified Communications

+45% **Growth in fibre base**

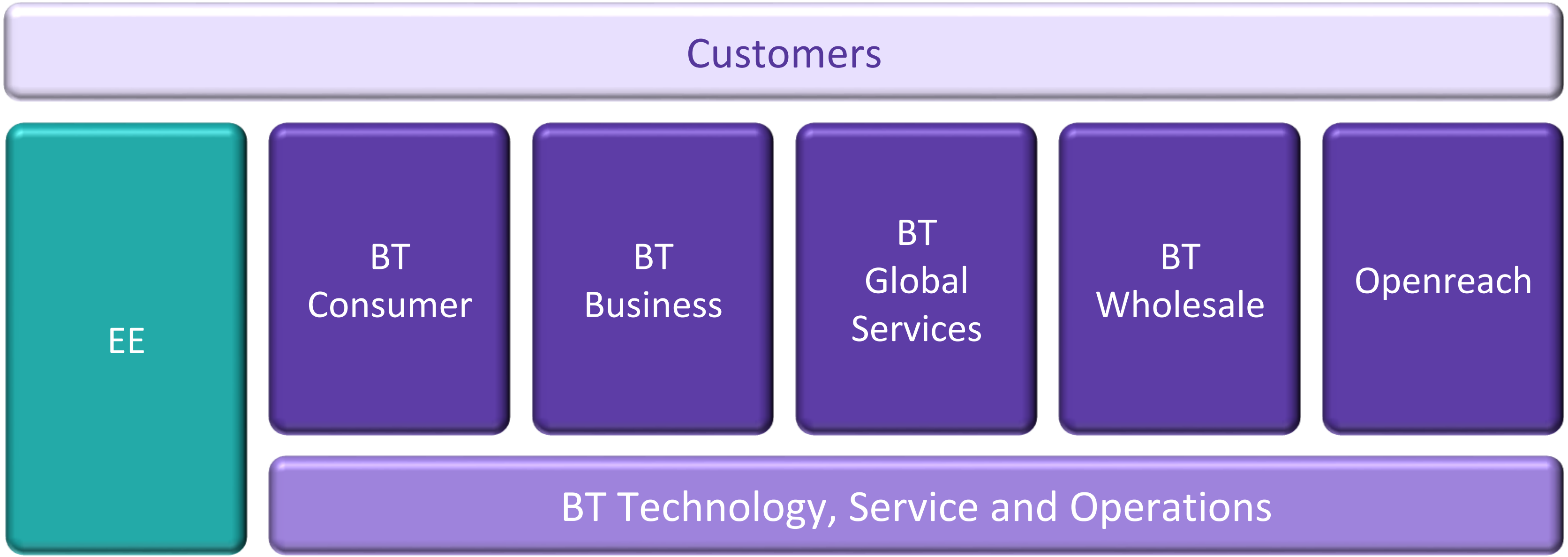
Leading global companies

+24% **Security revenue**

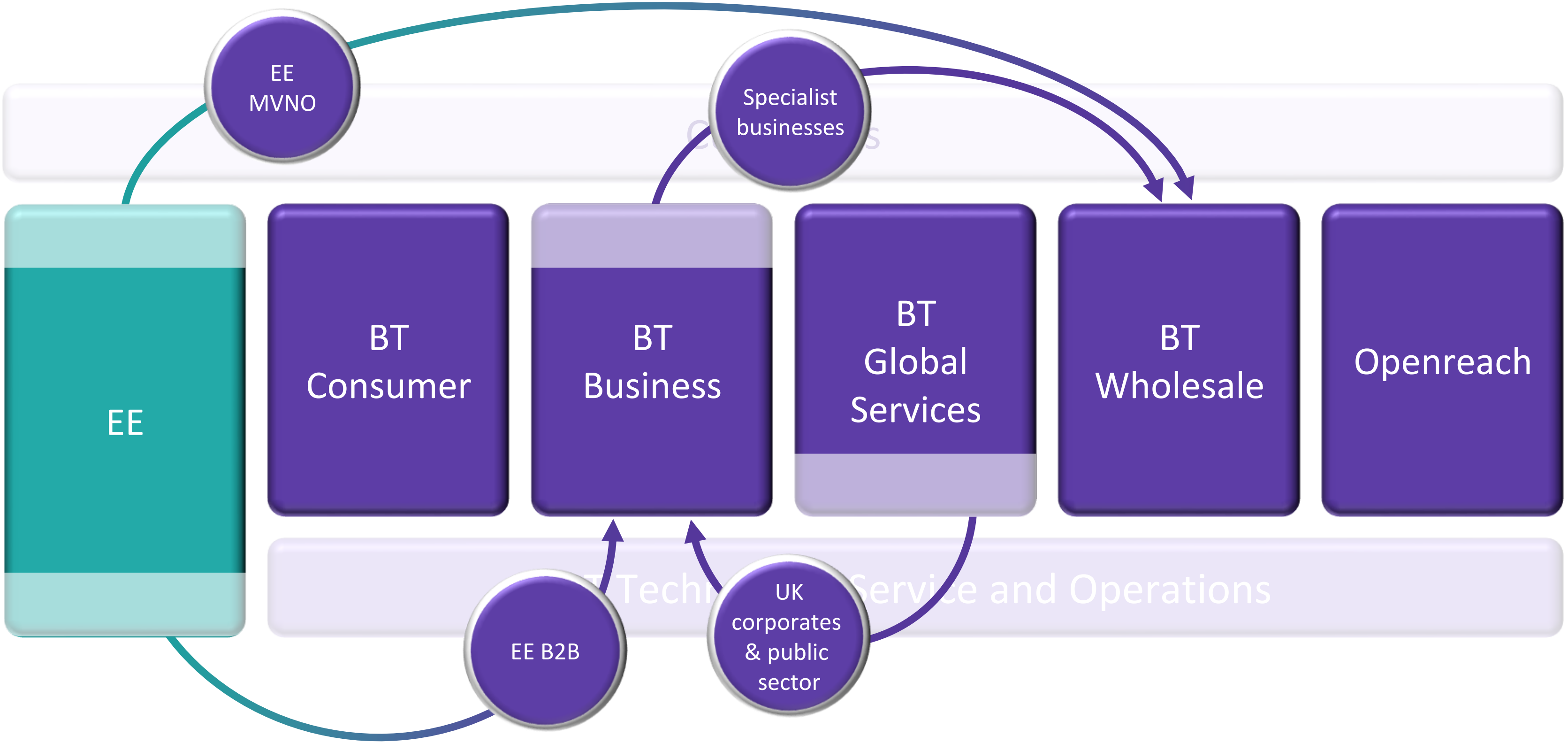
+12% **AMEA[1] revenue**

[1] Asia, Middle East and Africa

We’re changing our structure to better align with our customers



We’re changing our structure to better align with our customers



Our new structure gives us a sharper focus on our customer segments

Customers

EE

Consumer

Business and Public Sector

Global Services

Wholesale and Ventures

Openreach

Technology, Service and Operations

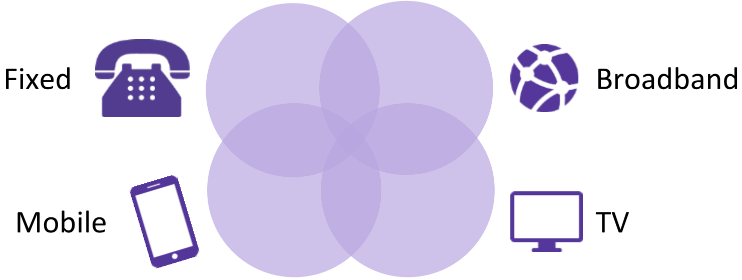
It means we're in a stronger position to drive, and benefit from, key market trends

1. Our markets are converging
2. Data volumes are accelerating
3. Businesses are moving to the cloud
4. MNC globalisation

Market trend 1: Digitisation – Convergence is gathering pace

1

- Fixed-mobile bundling is accelerating in the UK
- TV-broadband bundling is growing
- Customer expectations are rising
- They remain ill-served in pay-TV



Becoming a fully-converged service provider

- Cross-selling between BT and EE
- We can grow consumer RGUs and business share of wallet

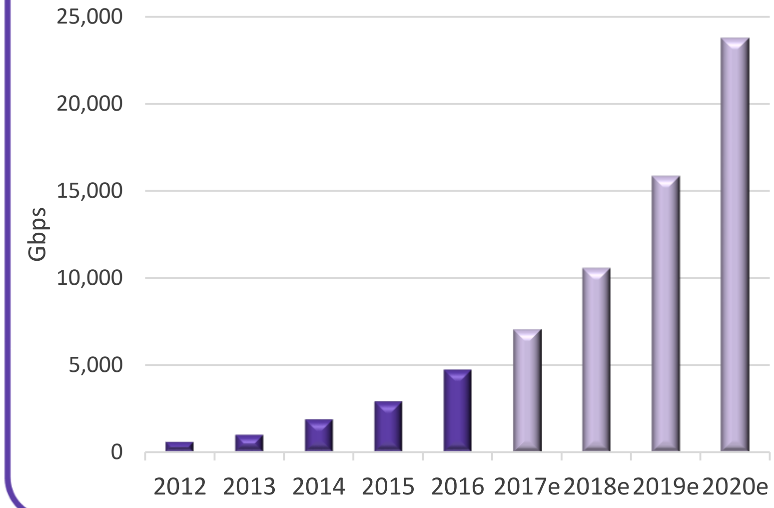
2015 quad-play penetration

Source: IDC

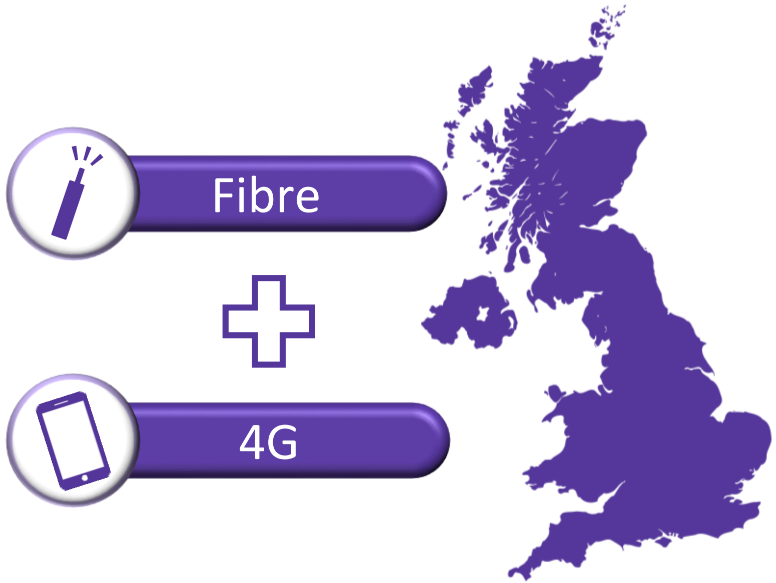
Market trend 2: Digitisation - Data volumes are accelerating

2

- Data volumes are growing exponentially
  - we expect a 50% CAGR by 2019/20



We'll have the best network in the UK



Market trend 3: Digitisation - Businesses are moving to the cloud

3

- UK Public Sector is moving services online and to smaller, regional purchasing
- Businesses moving to cloud-based IT; managing the migration is challenging

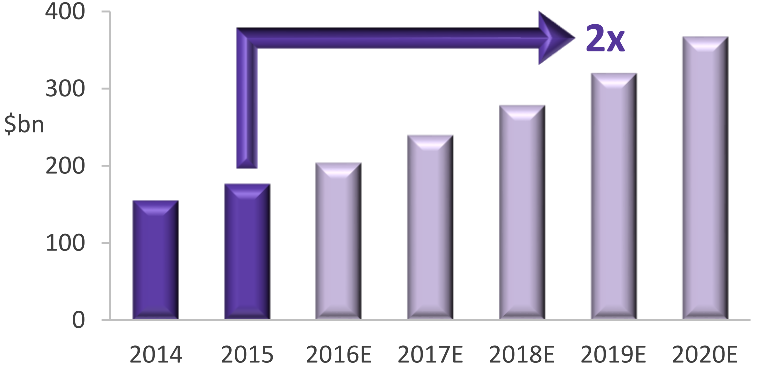
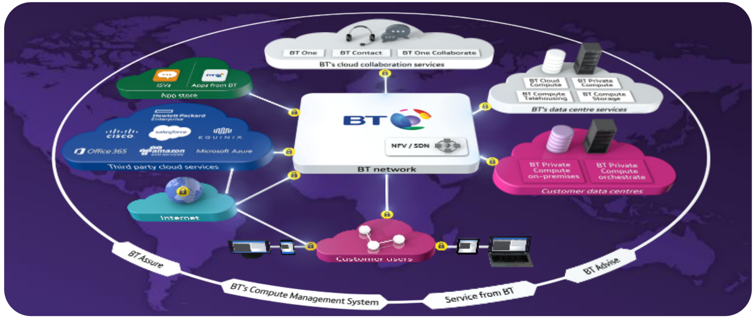


Chart created by BT based on Gartner research: Public cloud growth forecasts (USD) worldwide CAGR 2015-2020
Gartner, Forecast: Public Cloud Services, Worldwide, 2014-2020, 1Q 16 Update, 01 April 2016

Positioned as their trusted partner

- Our new Business & Public Sector organisation aligns to this model
- Our 'Cloud of Clouds' strategy positions us well



Market trend 4: MNC globalisation

4

- Large corporations are:
  - pursuing global consolidation
  - using digital technologies to transform
- But are very focused on managing their costs
  - pricing pressure continues on ‘traditional’ products
- Network is the critical infrastructure underpinning the services companies need

We have clear competitive advantages

- Global reach
- Security expertise
- Portfolio and service capabilities
- Unified communications
- Consulting services

Our strategy is aligned with these trends and changing customer behaviour

Our purpose

To use the power of communications to make a better world

Our goal

Growth – to deliver sustainable profitable revenue growth

Our strategy

Broaden and deepen our customer relationships

Deliver great customer experience

Invest for growth

Transform our costs

Differentiated content, services and applications

Best network in the UK

Fully converged service provider

Market leadership in all UK segments

Focus on multinational companies globally

A healthy organisation

Best place to work

Our strategy is aligned with these trends and changing customer behaviour

Our purpose	To use the power of communications to make a better world
Our goal	Growth – to deliver sustainable profitable revenue growth
Our strategy	Broaden and deepen our customer relationships

Deliver great customer experience

Invest for growth

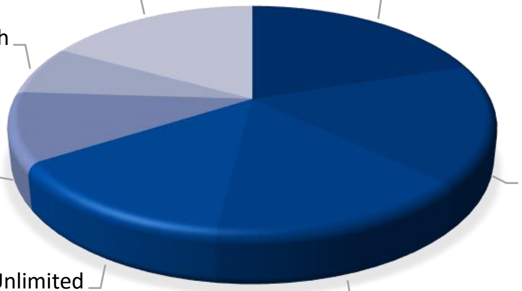
Transform our costs

- Differentiated content, services and applications
- Best network in the UK
- Fully converged service provider
- Market leadership in all UK segments
- Focus on multinational companies globally

A healthy organisation: Best place to work

Customer expectations are rising

- Our services are becoming more critical to daily lives
- Broadband quality and reliability are key:



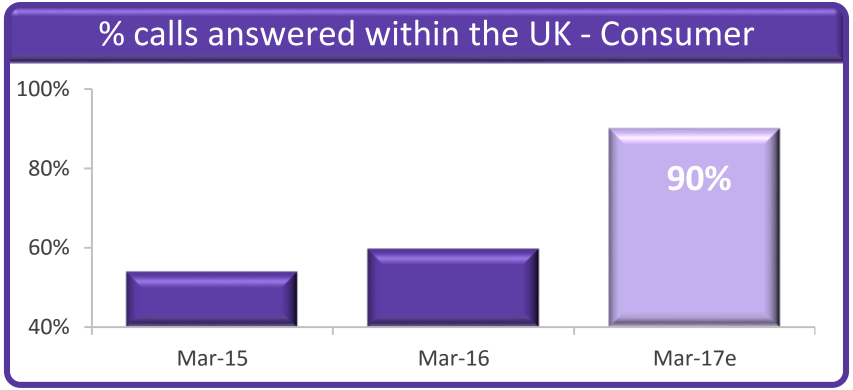
Basis survey for BT Consumer, July 2015

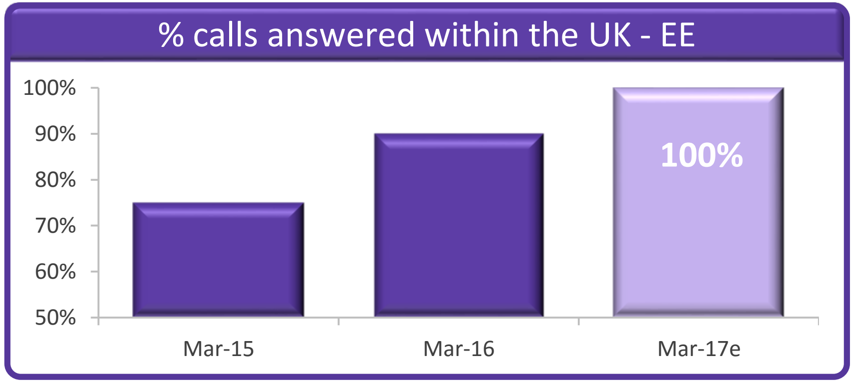
In 2015/16 we invested in:

- Our people
  - hired >900 people into UK contact centres
  - complaints 50% lower where agents are multi-skilled
- Our networks
  - making them more resilient to weather
  - lower fault rate through proactive maintenance
- Our products
  - customer experience included as a design criteria in BT Mobile

Improving the experience delivered by customer contact centres

- Handling more customer calls in the UK
- Making it easier for customers to interact with us
- Simplifying our service model
- Investing further in advisor training
- Reducing the need for customers to call us
  - 44% decline in propensity to call in last three years

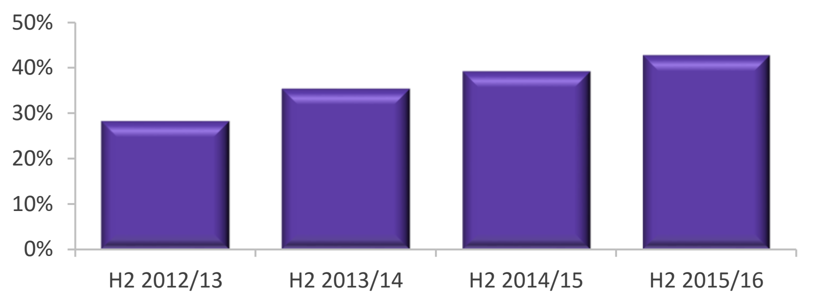




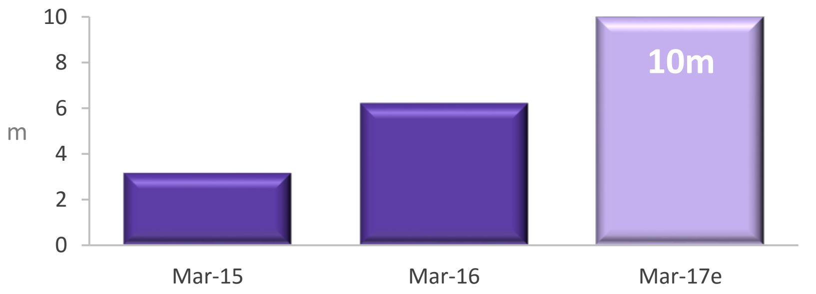
Customers are moving online for service

- Customers increasingly interact with us through a mix of digital channels
- Consumers are adopting app-based interactions
- Businesses are recognising our improved online capabilities
- We see increasing demand for further 'personalisation' of our digital channels

% of BT Consumer sales online



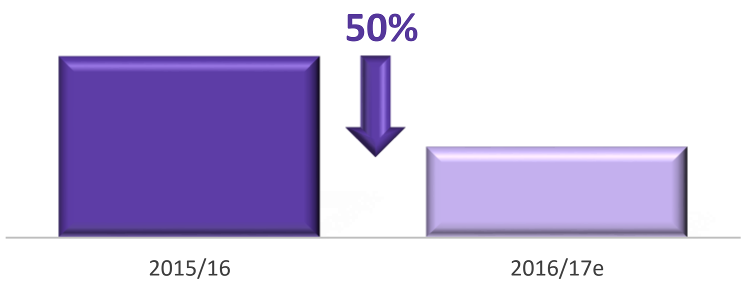
My EE registration



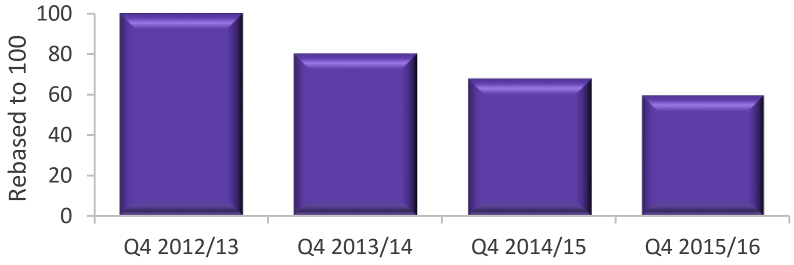
We're investing in our network and reducing failure

- Removing service failure is at the core of improving customer experience
- Avoiding repeat activities / visits also helps our costs
- Driving up adoption of fibre improves customer experience
  - fibre NPS is +20 greater than non-fibre
  - continuously improving reliability of fibre
  - ultrafast offers further opportunities

Reducing missed appointments in Openreach



Reducing fault rate

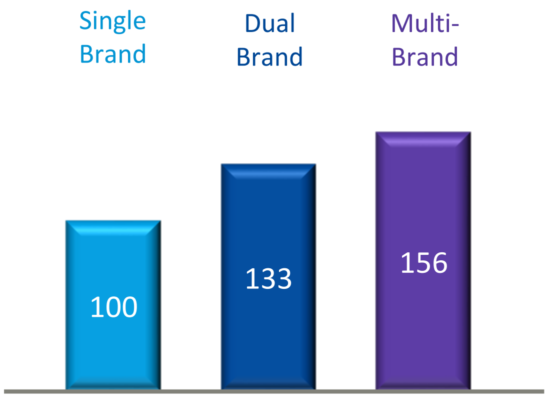


FTTC fault rate in BT Consumer and BT Wholesale

Using multiple brands to address different segments

>50% higher brand consideration for multi-brand

Customers likely to consider brand(s) index



Distinct brand positions create options to manage diverse and dynamic competitors

BT

Brand strengths:
- Premium, high quality
- Trustworthy, reliable, credible
- British heritage
- Family-focused

Heartland: Home, fibre, family

Competitors: sky, Virgin media

EE

Brand strengths:
- Innovative
- Modern and up-to-date
- Social and outgoing
- Out of home and on the move

Heartland: On the go, mobile, personal

Competitors: vodafone, O2, 3

plusnet

Brand strengths:
- Honest, straight-talking
- Playful
- Yorkshire charm
- Value for money

Heartland: Home, broadband, value

Competitors: TalkTalk, sse

We're investing in five areas to drive growth

Our purpose

To use the power of communications to make a better world

Our goal

Growth – to deliver sustainable profitable revenue growth

Our strategy

Broaden and deepen our customer relationships

Deliver great customer experience

Invest for growth

Transform our costs

Differentiated content, services and applications

Best network in the UK

Fully converged service provider

Market leadership in all UK segments

Focus on multinational companies globally

A healthy organisation

Best place to work

We're investing in five areas to drive growth

Differentiated content, services and applications

Best network in the UK

Fully converged service provider

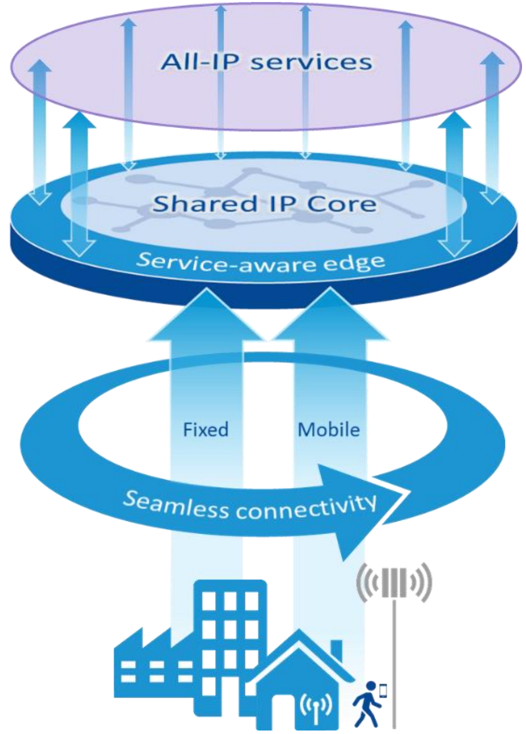
- Seamless, best connectivity at all times
- Bringing together networks and operations
- And our customer propositions

Market leadership in all UK segments

Focus on multinational companies globally

A fully converged network will lower costs and improve customer experience

- Seamless connectivity to the best fixed and mobile networks
- Moving to all-IP
- One common access platform
- Connected through copper, fibre and mobile
- Supported by a single IP core



We're investing in five areas to drive growth

Differentiated content, services and applications

Best network in the UK

- Combining power of fibre with 4G and 5G
- Leveraging the ESN contract for nationwide 4G
- Using our network as a competitive advantage

Fully converged service provider

- Seamless, best connectivity at all times
- Bringing together networks and operations
- And our customer propositions

Market leadership in all UK segments

Focus on multinational companies globally

We'll have the best network in the UK

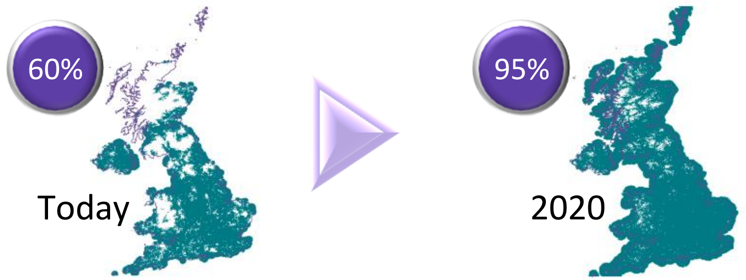
95% 4G geographic coverage by end-2020
- from an industry-leading 60% today

95% Superfast availability by end-2017
- we want to go further

10m Ultrafast homes by end-2020
- with an ambition to reach 12m

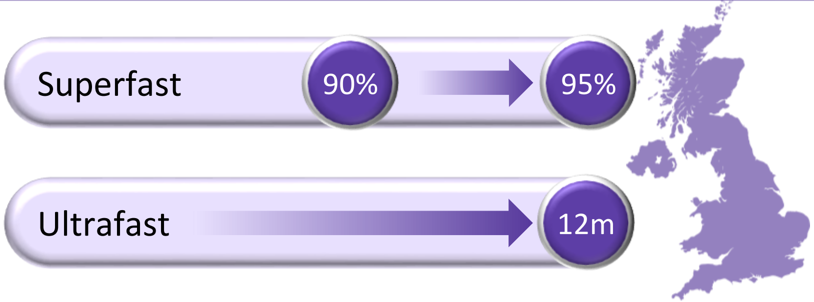
c.£6bn 3-year Openreach and EE capex
- with continued investment into 2020

Accelerating 4G geographic coverage



Maps not to scale

Moving from superfast to ultrafast



We're investing in five areas to drive growth

Differentiated content, services and applications

- Selling bundles of services and cross-selling
- TV and BT Sport for consumers
- Unified comms, cloud and security for businesses

Best network in the UK

- Combining power of fibre with 4G and 5G
- Leveraging the ESN contract for nationwide 4G
- Using our network as a competitive advantage

Fully converged service provider

- Seamless, best connectivity at all times
- Bringing together networks and operations
- And our customer propositions

Market leadership in all UK segments

Focus on multinational companies globally

We're investing in five areas to drive growth

Differentiated content, services and applications

- Selling bundles of services and cross-selling
- TV and BT Sport for consumers
- Unified comms, cloud and security for businesses

Best network in the UK

- Combining power of fibre with 4G and 5G
- Leveraging the ESN contract for nationwide 4G
- Using our network as a competitive advantage

Fully converged service provider

- Seamless, best connectivity at all times
- Bringing together networks and operations
- And our customer propositions

Market leadership in all UK segments

- Combining best propositions with the best network
- In retail and wholesale markets

Focus on multinational companies globally

We're investing in five areas to drive growth

Differentiated content, services and applications

- Selling bundles of services and cross-selling
- TV and BT Sport for consumers
- Unified comms, cloud and security for businesses

Best network in the UK

- Combining power of fibre with 4G and 5G
- Leveraging the ESN contract for nationwide 4G
- Using our network as a competitive advantage

Fully converged service provider

- Seamless, best connectivity at all times
- Bringing together networks and operations
- And our customer propositions

Market leadership in all UK segments

- Combining best propositions with the best network
- In retail and wholesale markets

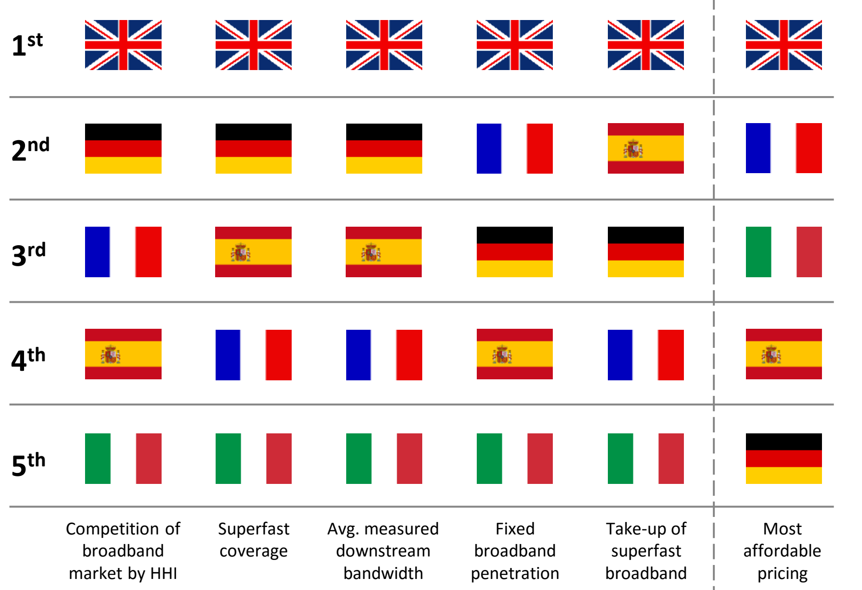
Focus on multinational companies globally

- Providing solutions that cross borders
- Using Cloud of Clouds to differentiate

We'll grow our business to offset regulatory pressures

- Regulatory headwinds will be higher in 2016/17 and 2017/18
  - we support regulatory change that improves customer experience and promotes fair competition
  - we will challenge decisions that do not
- The investments we've made will help us offset these headwinds
- Our investments have also transformed the UK
  - we need an appropriate regulatory environment to continue to invest at pace

Our investments have delivered for the UK

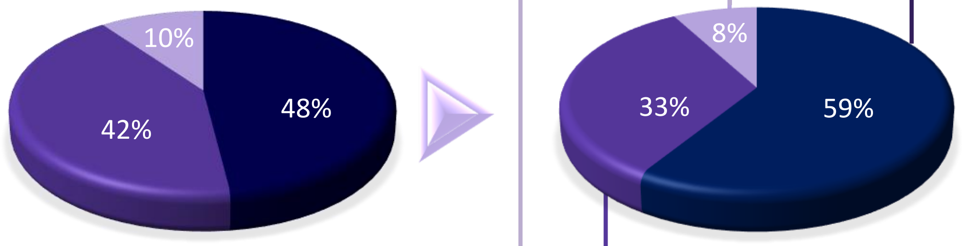


Source: Analysys Mason, International benchmarking report, September 2015

Source: Ofcom ICMR 2015

We're very well placed to capitalise on UK digitisation and MNC globalisation

Before EE[1] | After EE[1]



UK digital transformation

- Market at inflexion point
- We have the leading assets for FMC
- 'Premium' positioning

UK regulated access infrastructure

- 'Fit for future' assets
- Vertical integration de-risks investment
- Appropriate return required on investments

MNC globalisation

- We're the market leader
- With competitive advantages
- At a time when others are retrenching

[1] 2015/16 EBITDA; 'After EE' assumes EE owned from 1 April 2015

How we plan to achieve sustainable profitable revenue growth

The investments we've made are fueling growth today	• We'll continue to invest with discipline • Supported by cost transformation, our cash generation and a strong balance sheet
We have products that our customers want	• Multiple brands; relationships with many UK homes / businesses • Growing our share of wallet • Using customer experience as a competitive advantage
With the best network assets	• Largest superfast fixed network and best 4G mobile network
We're already growing overseas	• With strong growth in areas like security, cloud and IP
And our markets can grow	• As customers consume more digital services, and • Increasingly focus on value, reliability and consistency of service

Our outlook reflects our growth ambitions

	2016/17	2017/18
Underlying revenue ex transit[1]	Growth	Growth
EBITDA[2]	c.£7.9bn	Growth
Normalised free cash flow[3]	£3.1bn - £3.2bn	>£3.6bn
Dividend per share	≥10% growth	≥10% growth

[1] excludes specific items, foreign exchange movements and the effect of acquisitions and disposals. Measured as though EE had been part of the group from 1 April 2015
[2] before specific items
[3] before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

Seizing the convergence opportunity

Delivering sustainable profitable revenue growth

- Creating the UK's leading converged operator
- Using our people, network and customer experience as a competitive advantage
- With significant further cost transformation
- Which will help fund our investments in growth

Q&A

BT Capital Markets Day

2015/16 results

5 May 2016