



BT Group plc Q4 2017/18 results

10 May 2018

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 2018/19 including revenue, EBITDA and free cash flow; capital expenditure for 2018/19 and 2019/20; share buy-back; our dividend policy; the BT Pension Scheme recovery plan and expected funding from the issuance of bonds; our transformation driving long term growth; and our increasing network investment through Openreach's Fibre First programme and further 4G and 5G mobile network build.

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 whether as a result of the uncertainties arising from the UK's exit from the EU or otherwise; future regulatory and legal actions, decisions, outcomes of appeal and conditions or requirements in BT's operating areas, as well as competition from others; consultations and market reviews including the outcome of Ofcom's reviews of the Wholesale Local Access, Wholesale Broadband Access and Business Connectivity markets; selection by BT and its customer facing units 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; external threats to cyber security, data or resilience; political and geo-political risks; the anticipated benefits and advantages of new technologies, products and services not being realised, including the proposed investment in our FTTP broadband network and 4G spectrum; the timing of entry and profitability of BT in certain 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, synergies and cost savings of the EE integration and other integration and restructuring plans not being delivered; the improvements to the control environment following the investigations into BT's Italian business not continuing to be operated successfully, effectively and timeously across the Group; the anticipated benefits of the evolved strategy, transformation and restructuring not being realised; the BTPS recovery plan; 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.

Jan du Plessis
Chairman

Initial impressions

BT well positioned in a demanding market environment:

- Leader in fixed and mobile networks
- Leading brands
- Financially robust
- Products critical to consumers and businesses
- Significant data growth
- Transition from 'old' to 'new' technologies
- Multiple stakeholders – sometimes conflicting interests



A clear focus on delivery

2017/18 – disciplined delivery and risk reduction

- Improved customer experience
- Delivered financial targets
- Secured regulatory clarity:
 - legal separation of Openreach
 - WLA¹ market review gives pricing clarity for next 3 years
- Confirmed FTTP² investment plans to 2020
- Secured 40MHz of 3.4GHz spectrum for 5G
- Secured Premier League games at lower cost
- Announced content deal with Sky
- Closed defined benefits pension scheme to future accruals
- Agreed triennial valuation and funding strategy
- Remediated material controls weakness



¹ Wholesale Local Access

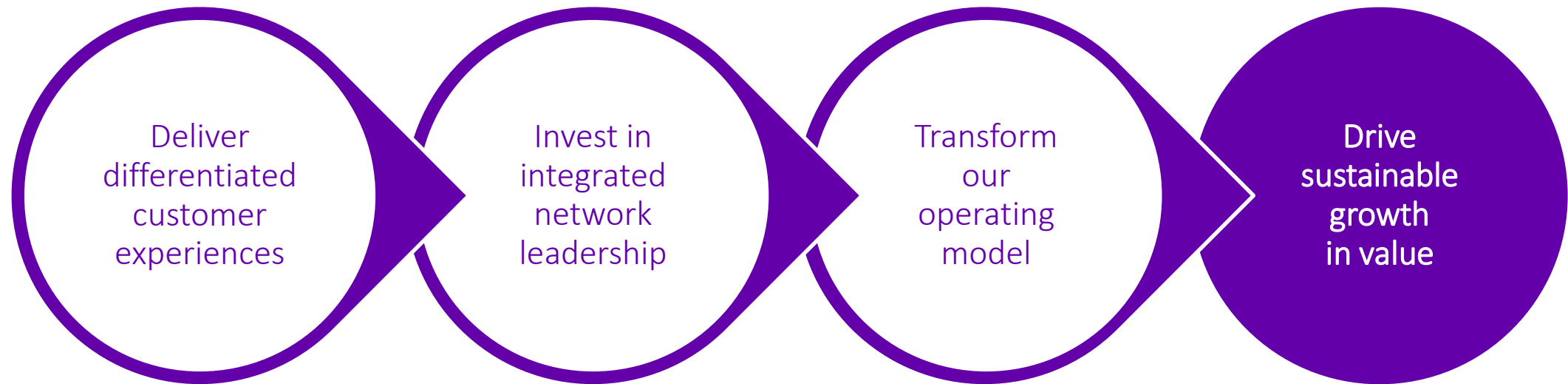
² Fibre-to-the-Premises

2017/18 – financial results and dividend

- Underlying revenue down 1% against broadly flat guidance
- EBITDA of £7.5bn within guidance of £7.5bn - £7.6bn
- Normalised free cash flow of £3.0bn exceeded guidance range of £2.7bn - £2.9bn
- Adjusted earnings per share of 27.9 pence
- Dividends:
 - dividend per share for 2017/18 unchanged at 15.4 pence
 - expected to remain at this level for next two years
 - no change to dividend policy



Looking to the future



Simon Lowth
Chief Financial Officer

Q4 and full year 2017/18 results – financial overview

	Q4 2017/18	Change YoY	FY 2017/18	Change YoY
Revenue¹	£5,967m	(3)%	£23,746m	(1)%
– underlying ex transit ²		(1.4)%		(1.0)%
Operating costs³	£3,884m	(4)%	£16,241m	(1)%
Adjusted EBITDA¹	£2,083m	1%	£7,505m	(2)%

¹ before specific items

² before specific items, foreign exchange movements and disposals

³ before specific items and depreciation and amortisation

Q4 and full year 2017/18 results – full year EBITDA progression

EBITDA bridge from 2016/17 to 2017/18



Q4 and full year 2017/18 results – financial overview

	Q4 2017/18	Change YoY	FY 2017/18	Change YoY
Adjusted EBITDA¹	£2,083m	1%	£7,505m	(2)%
Depreciation and amortisation	£(889)m	7%	£(3,514)m	2%
Net finance expense ¹	£(148)m	(2)%	£(546)m	8%
Tax ¹	£(174)m	9%	£(671)m	(1)%
Profit after tax¹	£872m	4%	£2,773m	(3)%
Specific items	£(150)m	(67)%	£(741)m	(23)%
Profit for the period	£722m	90%	£2,032m	6%
Adjusted EPS ²	8.8p	5%	27.9p	(3)%

¹before specific items

²earnings per share

Q4 and full year 2017/18 results – cash flow

	Q4 2017/18	Change YoY	FY 2017/18	Change YoY
EBITDA¹	£2,083m	1%	£7,505m	(2)%
Capital expenditure ²	£(844)m	(7)%	£(3,341)m	(7)%
Interest and tax	£(297)m	8%	£(1,173)m	13%
Change in working capital & other	£84m	425%	£(170)m	(70)%
Normalised free cash flow³	£1,026m	23%	£2,973m	7%
Payments in respect of the acquisition of spectrum ⁴	£(325)m	n/m	£(325)m	n/m
Specific items	£(119)m	102%	£(828)m	304%
Pension deficit payment, net of tax	£(809)m	(232)%	£(763)m	(365)%
Free cash flow (post pension deficit payments)	£(227)m	(143)%	£1,057m	(56)%
Net debt	-	-	£9,627m	8%

¹ before specific items

² before purchases of telecoms licences

³ before specific items, purchases of telecoms licences, pension deficit payments and the cash tax benefit of pension deficit payments

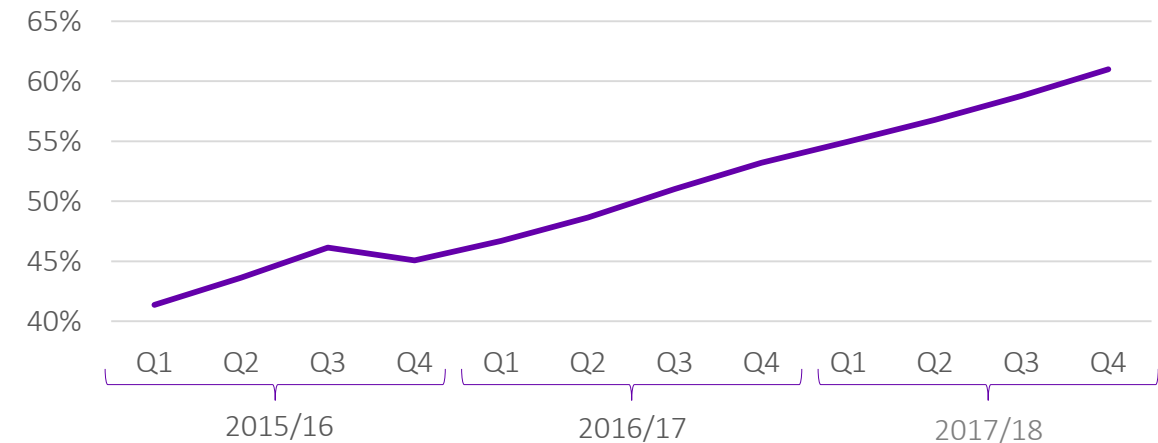
⁴ deposit paid in Q4 for spectrum acquired in Q1 2018/19 for £304m

BT Consumer – focus on higher value customers

- Revenue up 3% driven by:
 - Broadband, TV, Sport, and Mobile
 - 12-month rolling ARPU¹ up 5%
 - RGUs² per customer up 3% to 2.03
 - 61% of broadband customers now on fibre
 - BT Sport continued to deliver strong viewing figures across all platforms, up 19% YoY
- EBITDA up 13%, driven by revenue growth partially offset by higher network costs from an increase in fibre customers
- Further investments in customer experience:
 - e.g. Premier League continuing on BT Sport for three more years from the 2019/20 season

	Q4 2017/18	Change	FY 2017/18	Change
Revenue	£1,289m	3%	£5,066m	3%
EBITDA	£295m	13%	£1,023m	1%
Capex	£92m	28%	£291m	23%

Fibre share of Group retail broadband base



¹Average Revenue Per User

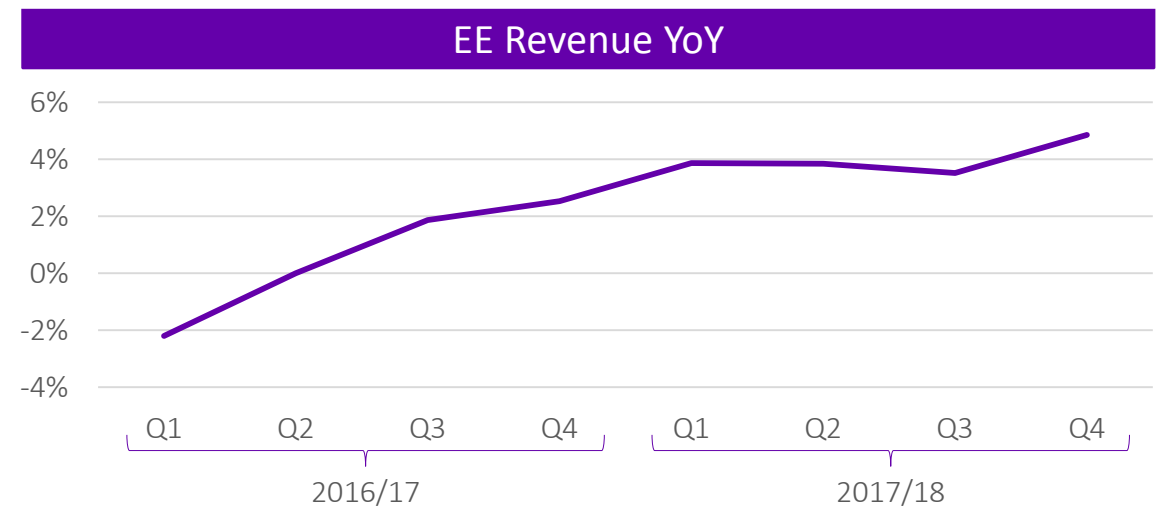
²Revenue Generating Units



EE – sixth consecutive quarter of revenue growth

- Sixth consecutive quarter of revenue growth:
 - postpaid up 6%; prepaid down 10%
- EBITDA up 37%, recovering strongly as forecast:
 - quarterly trends driven by seasonal customer behaviour
 - EBITDA up 17% over 2017/18
- Group mobile base 29.6m
 - 95,000 postpaid adds, group base now 17.6m
 - 433,000 prepaid decline, group base now 5.5m
 - postpaid churn 1.2%, continuing to reflect loyalty
- Investing to improve customer experience:
 - 4G geographic coverage 90% of the UK
 - named the leading mobile network for the ninth consecutive time in latest RootMetrics survey
 - introduced in-store and call centre video-calling to connect customers with technical experts

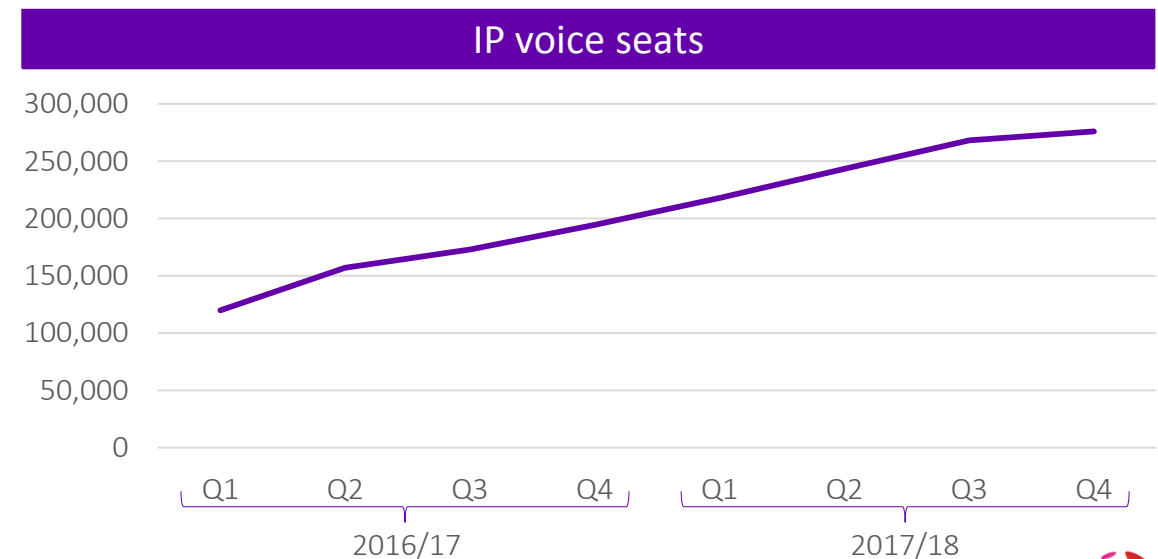
	Q4 2017/18	Change	FY 2017/18	Change
Revenue	£1,320m	5%	£5,294m	4%
EBITDA	£433m	37%	£1,353m	17%
Capex	£178m	9%	£628m	2%



Business and Public Sector – demanding quarter, improvements coming

- Underlying revenue ex transit down 5%:
 - continued decline in traditional voice and lower equipment sales partly offset by growth in VOIP¹ and mobile
 - SME² down 2%, Corporate down 5%
 - Public Sector and Major Business down 9% with lower equipment sales partly offset by mobile growth
- EBITDA down 7%:
 - reflecting reduction in revenue
 - EBITDA trend to improve in Q1 as Public Sector legacy drag subsides
- Order intake down 20% in Q4:
 - 12-month rolling intake up 1%
- Launched BT Business broadband with 4G Assure in Q1 2018/19

	Q4 2017/18	Change	FY 2017/18	Change
Revenue	£1,157m	(5)%	£4,563m	(4)%
– u/l ex transit		(5)%		(4)%
EBITDA	£362m	(7)%	£1,418m	(7)%
Capex	£83m	(7)%	£304m	11%



¹Voice Over IP

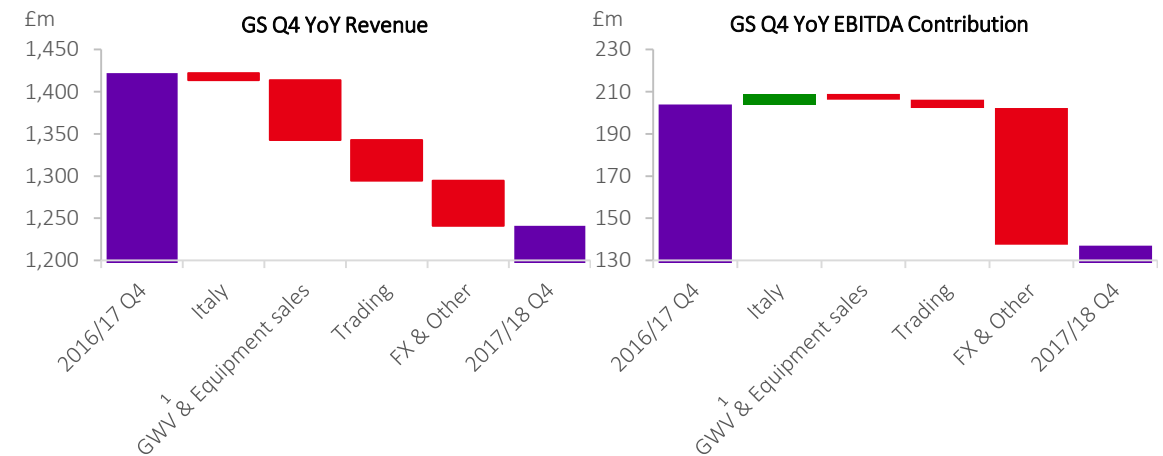
²Small and Medium Enterprises

Global Services – steady progress with restructuring

- Underlying revenue ex transit down 8% in Q4:
 - underlying revenue down 8% over the full year
 - de-emphasis of low-margin global wholesale voice and equipment sales
- EBITDA down 33% in Q4:
 - 9% reduction in Q4 operating costs
 - excluding one-offs, EBITDA marginally down
- Order intake up 12% in Q4:
 - 12-month rolling intake down 16%
 - reflecting shift to shorter more flexible contracting
- Progress with restructuring:
 - moving towards ‘Digital GS’, e.g. IBM Cloud Connect
 - shifting focus from domestic to global MNC² customers

	Q4 2017/18	Change	FY 2017/18	Change
Revenue – u/l ex transit	£1,241m	(13)% (8)%	£5,013m	(9)% (8)%
EBITDA	£137m	(33)%	£434m	(12)%
Capex	£86m	(15)%	£278m	(23)%

Global Services’ revenue and EBITDA movements



¹Global Wholesale Voice

²Multi-National Corporations

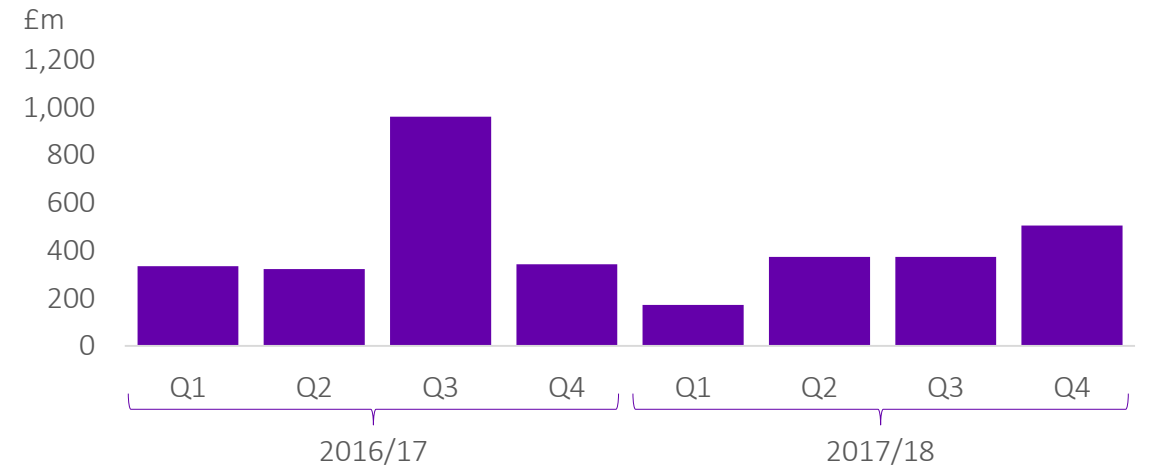


Wholesale and Ventures – improved order intake

- Underlying revenue ex transit down 6%:
 - Managed Solutions down 8%; Data and Broadband down 10%; Voice down 10%
 - Mobile revenue broadly flat YoY
 - Ventures revenue up 6% - continued growth in bulk messaging and Fleet Solutions
 - 138 InLinkUK units live at end of Q4
- EBITDA down 7% in Q4:
 - reflecting legacy revenue decline
- Order intake up 47% in Q4:
 - new 4 year product deal with KCOM
 - 12-month rolling intake down 28%

	Q4 2017/18	Change	FY 2017/18	Change
Revenue – u/l ex transit	£506m	(6)% (6)%	£2,009m	(5)% (4)%
EBITDA	£204m	(7)%	£754m	(10)%
Capex	£69m	(4)%	£229m	1%

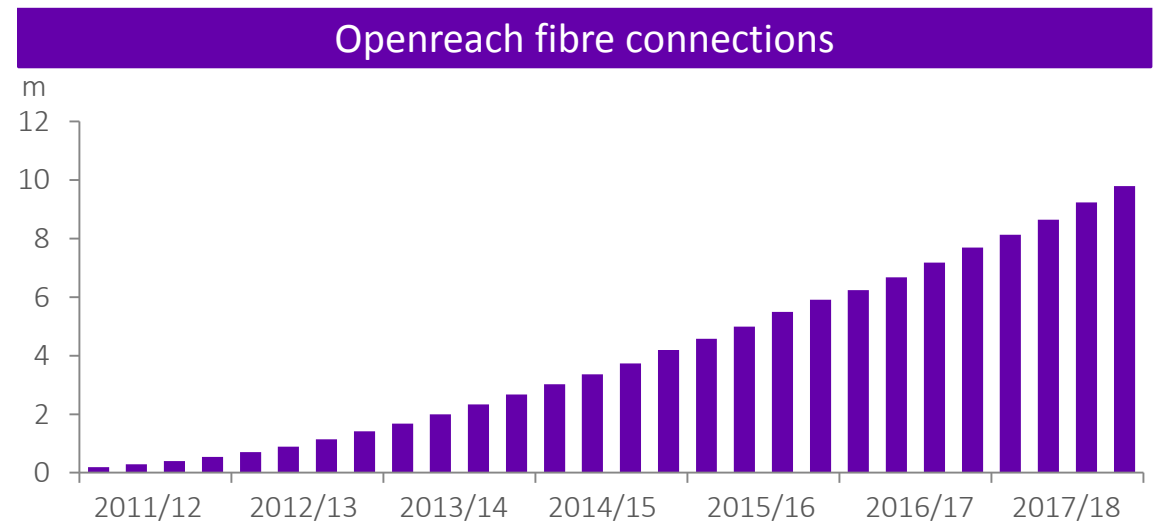
Quarterly order book



Openreach – another quarter of strong fibre growth

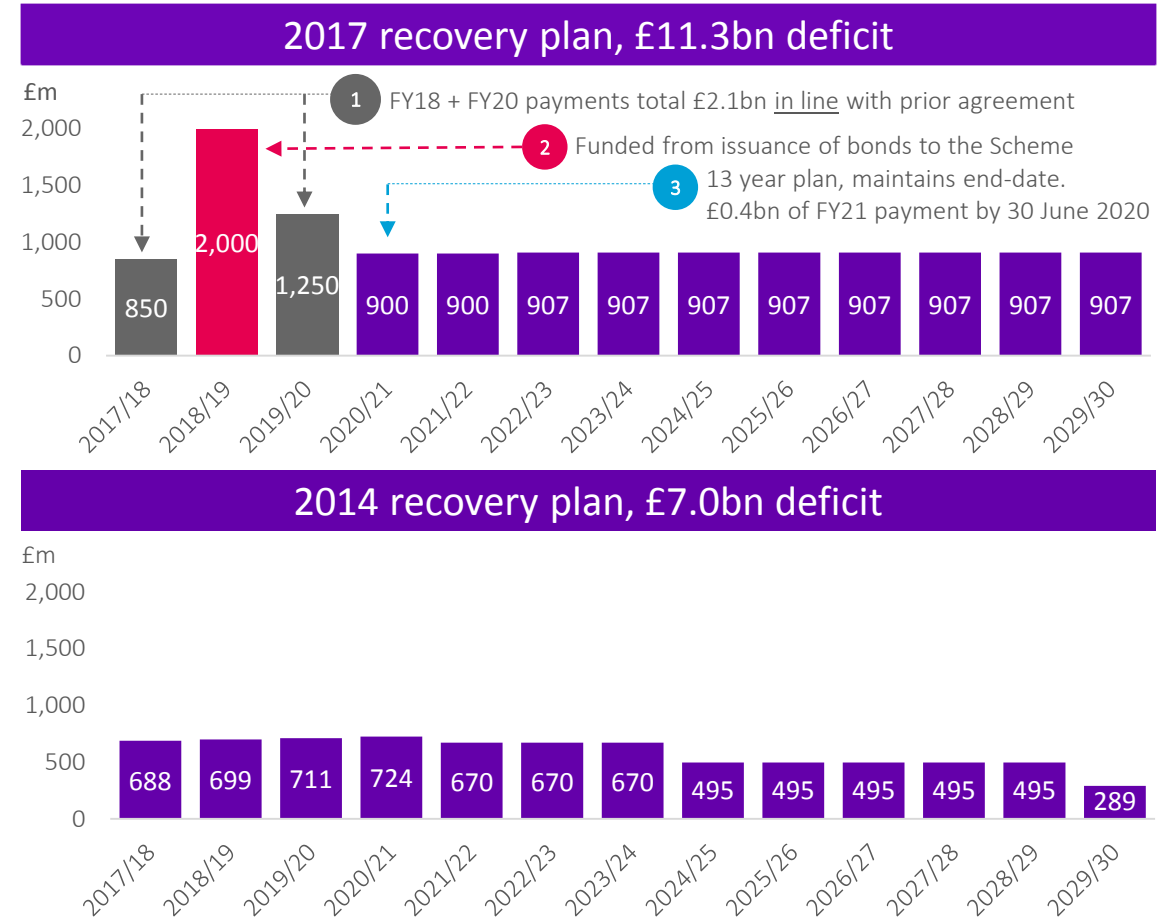
- Revenue flat in the quarter:
 - continued strong growth in fibre broadband, up 22%
- EBITDA down 8%:
 - driven by increased business rates and higher pension charges
- Normalised free cash flow down 23%
- 555,000 fibre broadband net additions:
 - 9.8m premises connected, 36% of those passed
 - ultrafast now available to more than 1.5m premises
- Ahead on all 60 copper minimum service levels
- 3.7% reduction in copper network faults in the year
- ‘Fibre First’ programme on track:
 - recruiting 3,500 trainee engineers

	Q4 2017/18	Change	FY 2017/18	Change
Revenue	£1,289m	0%	£5,123m	0%
EBITDA	£641m	(8)%	£2,520m	(4)%
Capex	£394m	(16)%	£1,658m	5%



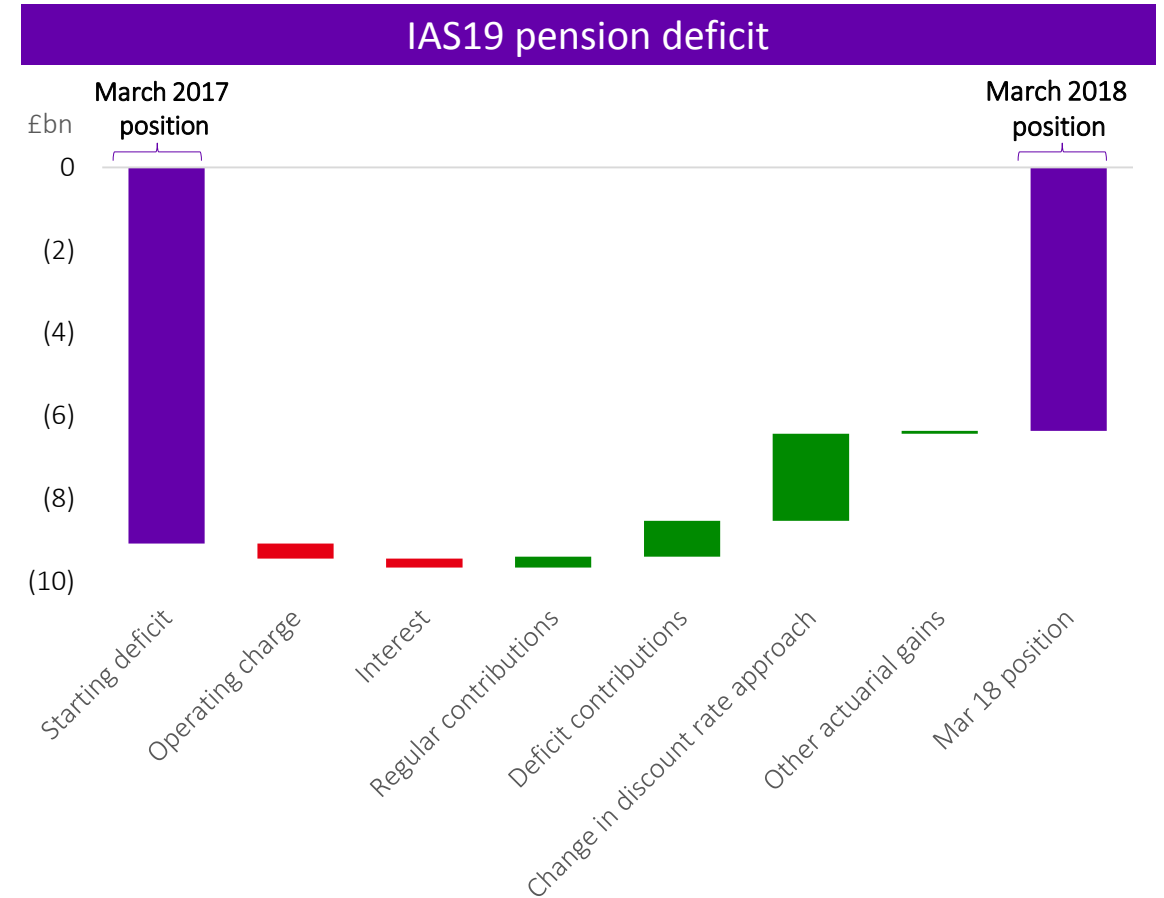
Pension – reached agreement on triennial valuation

- Funding deficit of £11.3bn:
 - increase mostly due to fall in long-term real interest rates
 - existing recovery plan end-date maintained
- Three components to deficit payments:
 1. £2.1bn by March 2020, in line with prior agreement
 2. £2.0bn expected to be funded by issuing long-dated sterling BT bonds to BTPS
 3. £0.9bn pa for 10 years with some payments earlier in financial year (e.g. £400m by June 2020)
- Leads to material contributions of £4.5bn before next triennial
- Lower level of investment risk, reducing volatility



Pension – proactive measures to reduce pension risk

- Closure¹ of defined benefit BTPS², members moved to improved defined contribution BTRSS³:
 - alongside investment strategy changes, materially reduces pensions risk
- Appeal lodged for Section C indexation case
- IAS 19 deficit £5.3bn (net of tax) at 31 March 2018:
 - improvement in assets
 - reduction in liabilities
 - change in discount rate approach



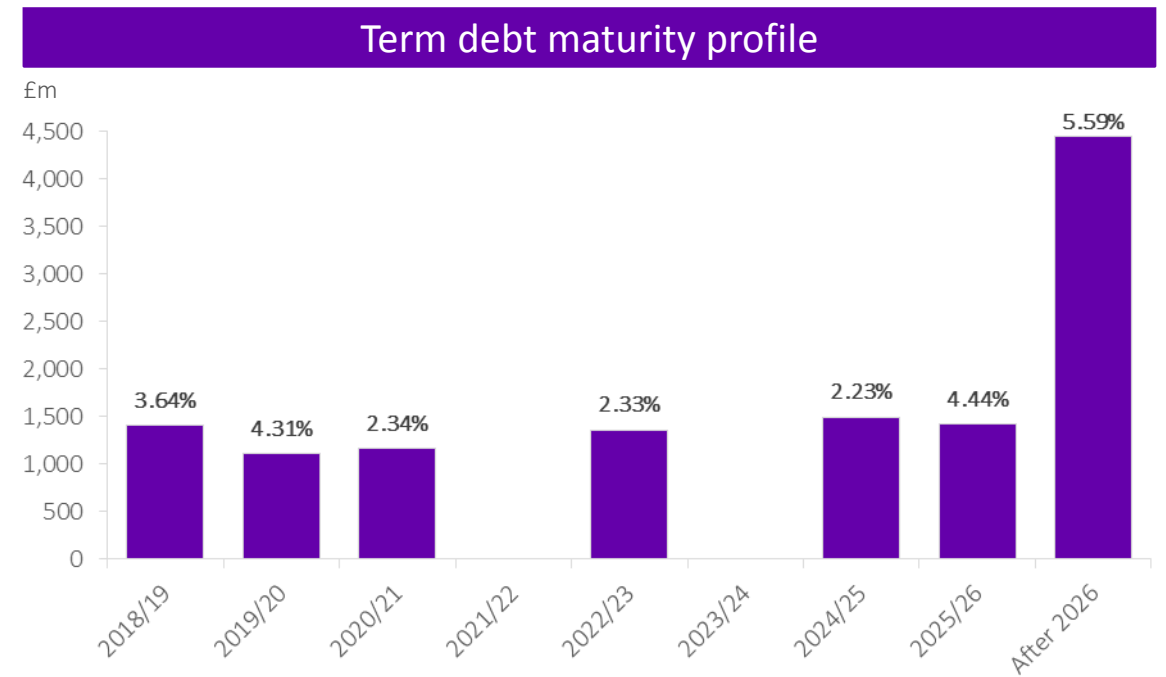
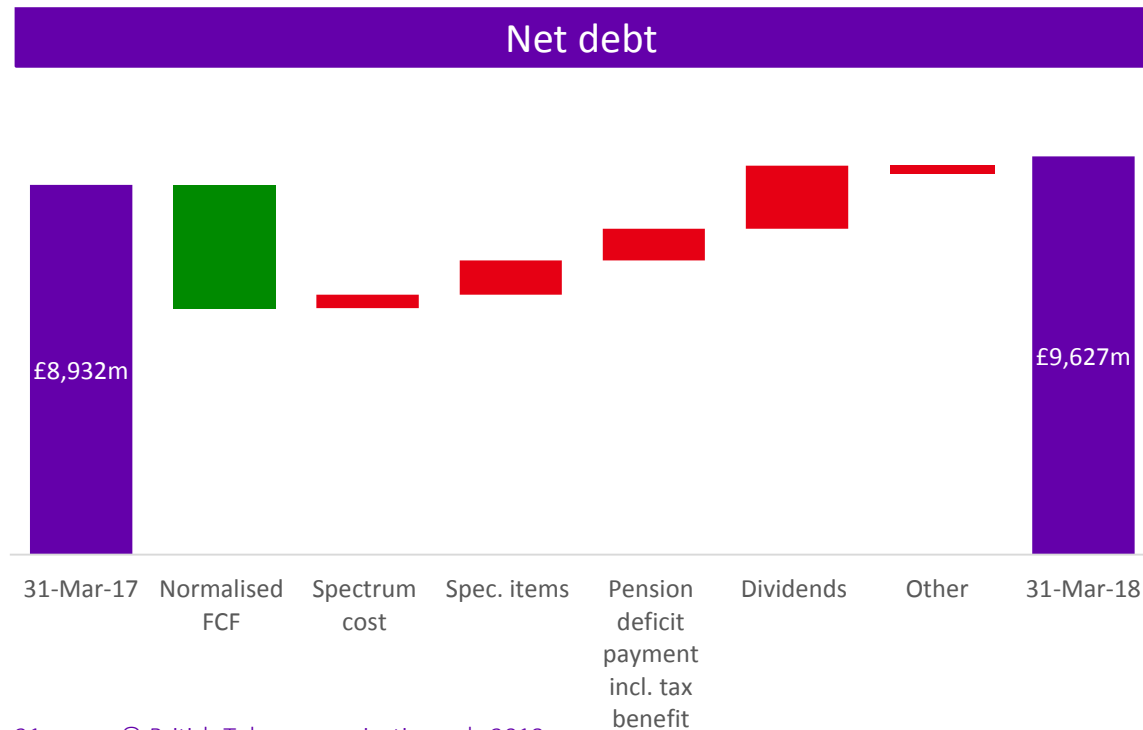
¹Sections B and C representing over 99% of the BTPS active membership to be closed to future accrual

²BT Pension Scheme

³BT Retirement Saving Scheme

Strong balance sheet

- Ample liquidity: £3.6bn cash & current investments and £2.1bn undrawn committed facilities
- Targeting BBB+ credit rating through the cycle
- Smooth, long dated maturity profile
- £2.0bn pension contribution, funded by BTPS subscribing for long-dated sterling bonds issued by BT, expected in 2018/19



Gavin Patterson
Chief Executive

Strategy update

Strategy update – agenda

1. BT's current market position

2. Market environment

3. Strategy evolved to focus on convergence

4. Actions to improve performance

Leadership in converged connectivity and services

1.	BT's current market position
2.	Market environment
3.	Strategy evolved to focus on convergence
4.	Actions to improve performance

- Year of disciplined delivery and risk reduction
- Strategy evolved to focus on:
 - Differentiated Customer Experiences
 - Integrated Network Leadership
 - Transformation of our Operating Model
- Focus on customer and 'value over volume'
- Disciplined financial framework:
 - underpins dividend



Well positioned to drive sustainable growth in value

¹ Fibre-to-the-Premises

² Wholesale Local Access

2017/18 year of disciplined delivery and risk reduction

1.	BT's current market position
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4.	Actions to improve performance

- Improved customer experience
- Delivered financial outlook in line with expectations
- Secured regulatory clarity:
 - legal separation of Openreach
 - WLA¹ market review gives pricing clarity on key products
- Confirmed next stage of fixed network development:
 - ambition 10m FTTP² by mid-2020s and 3m by 2020
- Secured 40MHz of 3.4GHz spectrum for 5G
- Premier League auction - games secured at lower cost
- Agreement to access Sky's sports and entertainment packages
- Closed final salary pension scheme to future accruals
- Agreed triennial valuation and funding strategy
- Remediated material controls weakness
- Simplified organisational structure and strengthened management



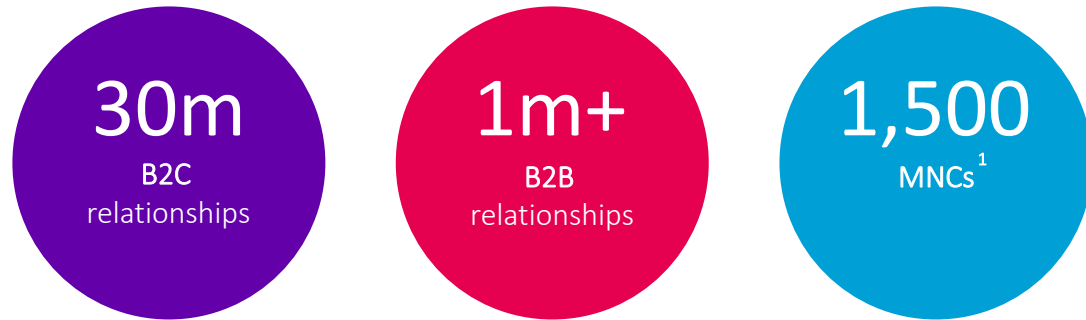
¹ Wholesale Local Access

² Fibre-to-the-Premises

BT – strong market position, uniquely positioned for sustained growth

1.	BT's current market position
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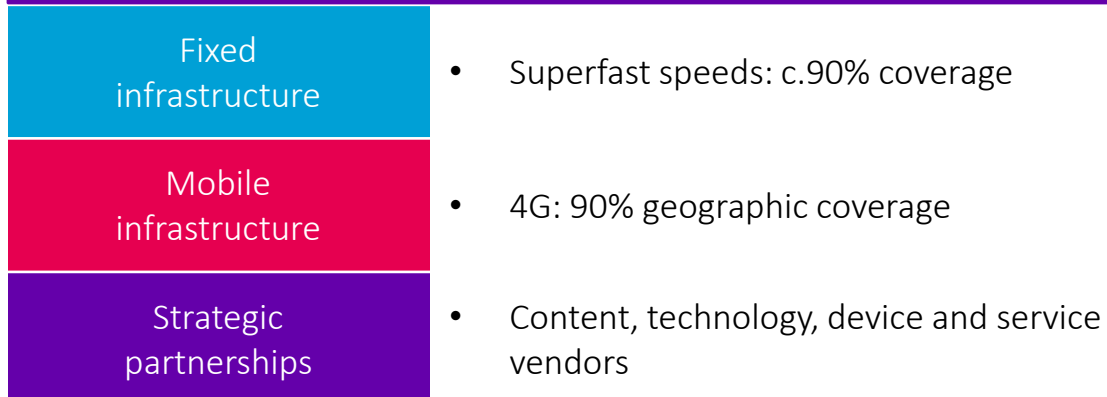
BT is a clear market leader



BT has a portfolio of strong brands



Positioned across fixed, mobile and strategic partnerships



Multi channel sales and service



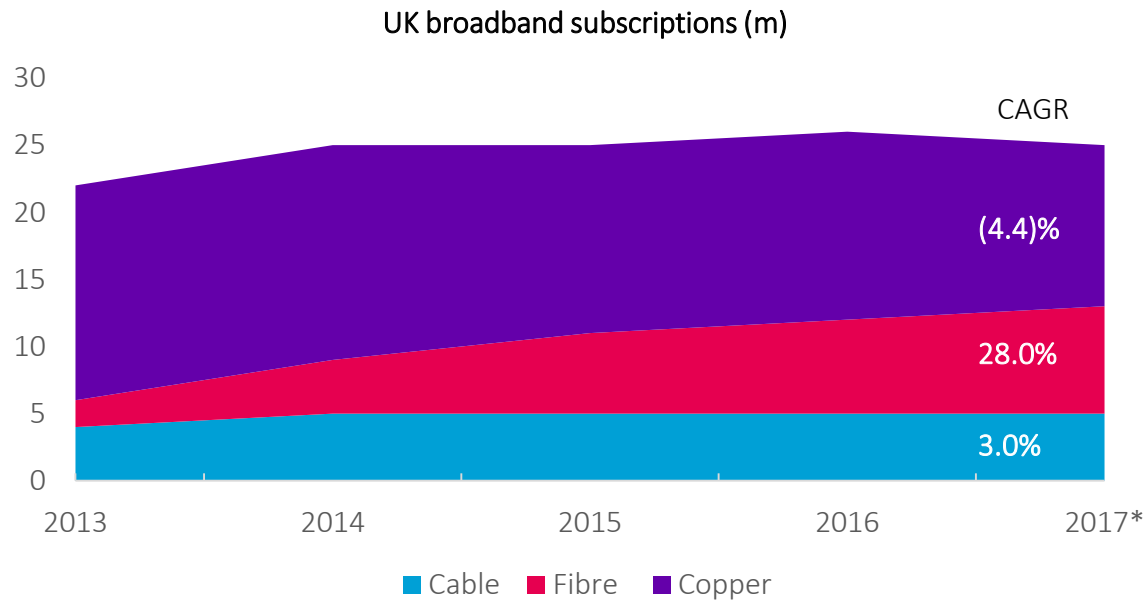
¹Multi-National Corporations



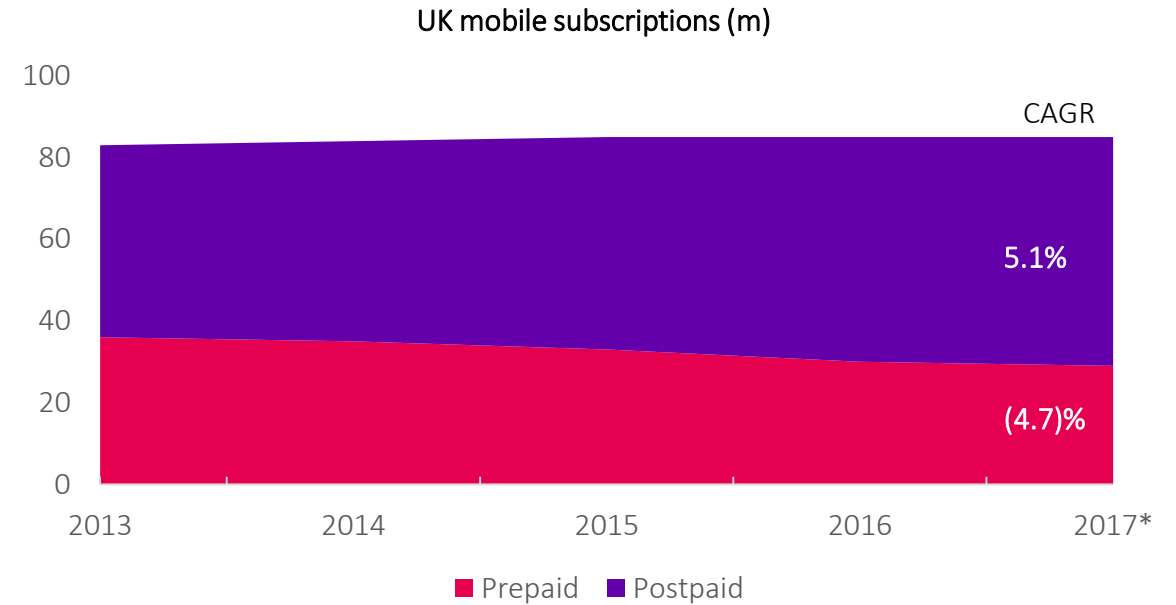
Market growth is slowing with demand for higher value products increasing

1. BT's current market position
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3. Strategy evolved to focus on convergence
4. Actions to improve performance

UK broadband growth has slowed, but fibre is steadily increasing



UK mobile subscriptions broadly flat, but pay monthly is growing



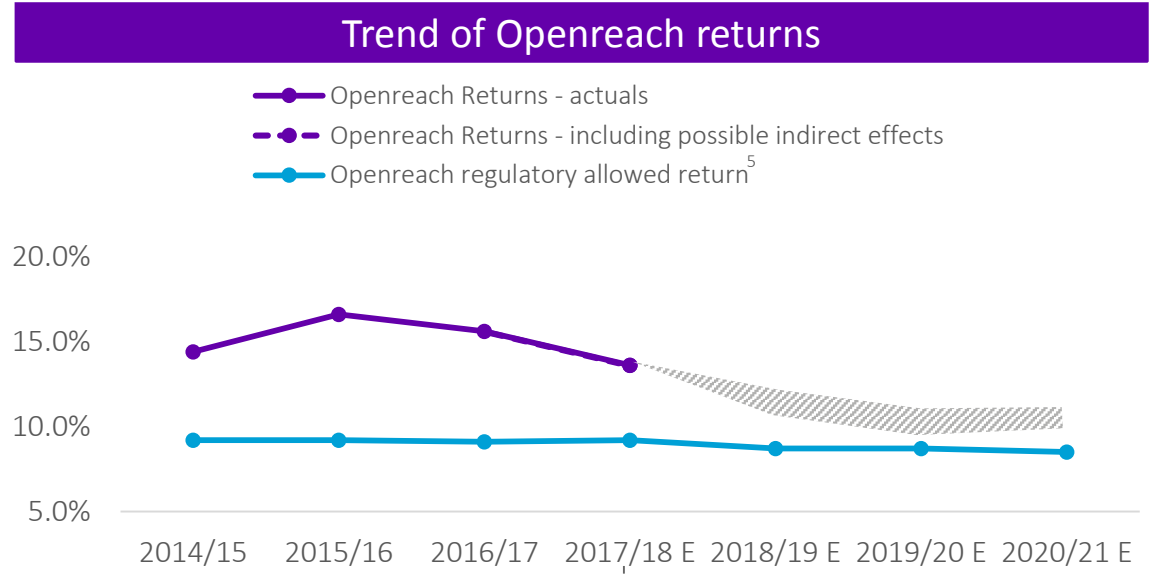
Intensifying competition – clear differentiation needed for premium pricing

*to Q3 2017
Source: Ofcom CMR & Connected Nations report

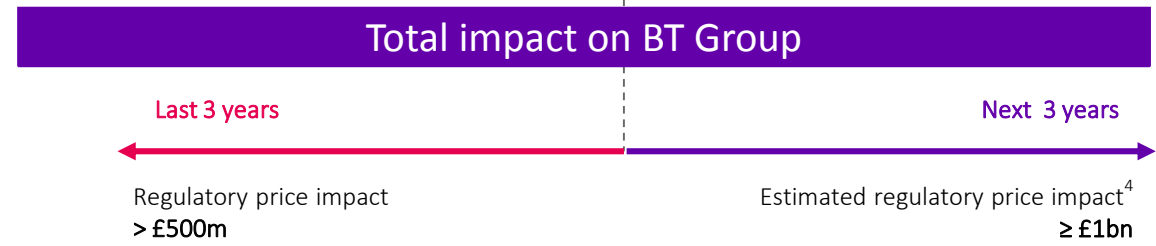


1.	BT's current market position
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Openreach regulated returns declining to allowed return on capital



- Price cuts on Ethernet (BCMR) services are starting to erode the Openreach ROCE¹
- Price cuts in WLA (especially GEA² services) over the next three years to accelerate this trend
- Openreach returns in regulated markets to be much closer to the Ofcom “WACC³” by 2020/21
- Impact of regulation should reduce in the longer-term

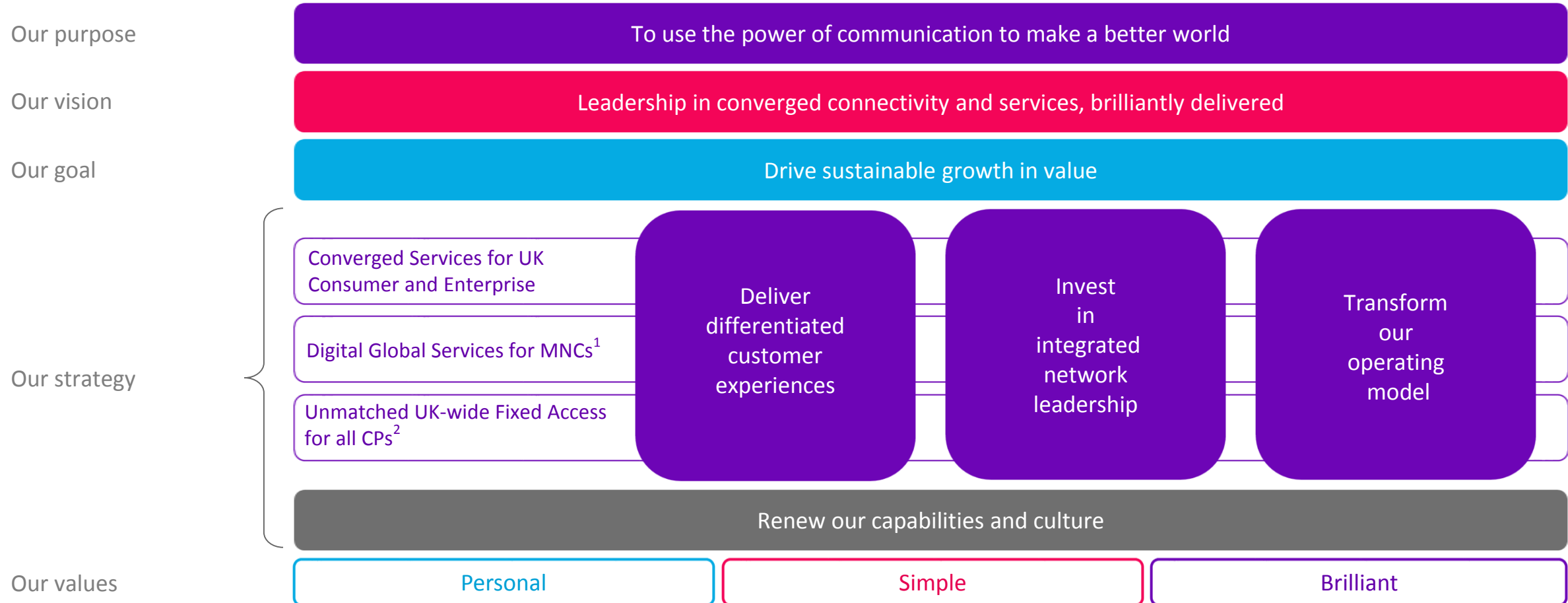


¹ Return on Capital Employed
² Generic Ethernet Access
³ Weighted Average Cost of Capital
⁴ assumes direct and indirect impact
⁵ extrapolating WACC used in Ofcom’s charge control models across all Openreach services



We have evolved our strategy to focus on convergence

1. BT's current market position
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3. Strategy evolved to focus on convergence
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¹Multi-National Corporations

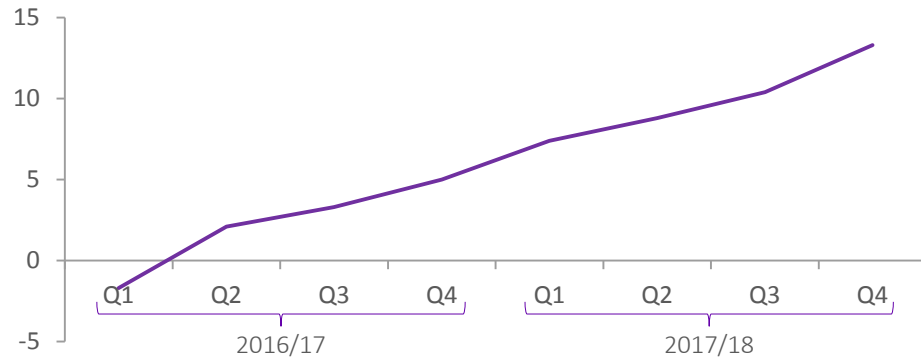
²Communications Providers



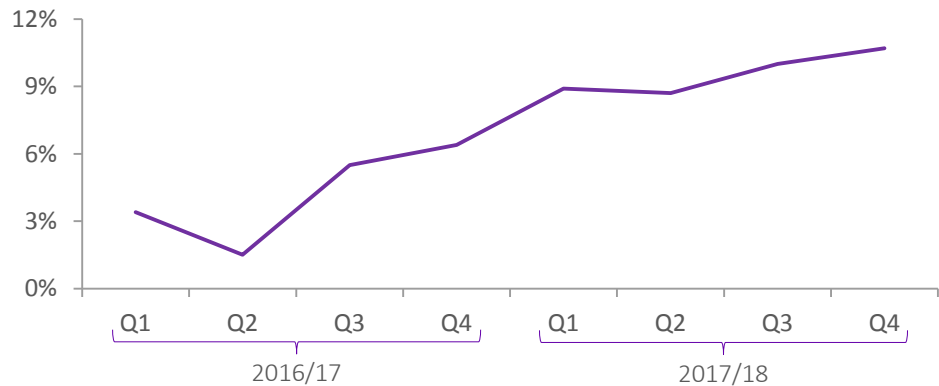
Deliver differentiated customer experiences

1. BT's current market position
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Movement in Group Net Promoter Score¹



Movement in Group Right First Time²



- Group NPS and RFT continue to improve
- Progress in Openreach:
 - copper network faults down 3.7%
 - ahead on all 60 copper minimum service levels
 - on-time repair performance remains over 80%
- Improving customer service:
 - service calls to our contact centres down 10% YoY
 - increasing use of digital channels such as My BT and My EE, 6.6m active users per month
 - average BT Consumer call waiting time down to 41 seconds
- Ofcom complaints:
 - down 25% YoY, at a record low, for EE mobile
 - down 18% YoY for BT Consumer broadband and 11% YoY for BT Consumer landlines
- Business and Public Sector complaints team won 'Team Of The Year' in the UK Complaint Handling Awards 2018

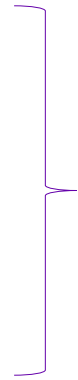
¹Group NPS shows the cumulative movement in our customers' perception of BT since April 2016. It's a combined measure of 'promoters' minus 'detractors' across our business units.

²Group RFT is our key measure of customer service and shows the cumulative movement since April 2016. It tracks how often we keep our promises to customers (e.g. completing orders/fixing faults on time). The scope of NPS and RFT are re-baselined at the start of the financial year.

BT is uniquely positioned to lead in network, product and service convergence

1. BT's current market position
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One converged network



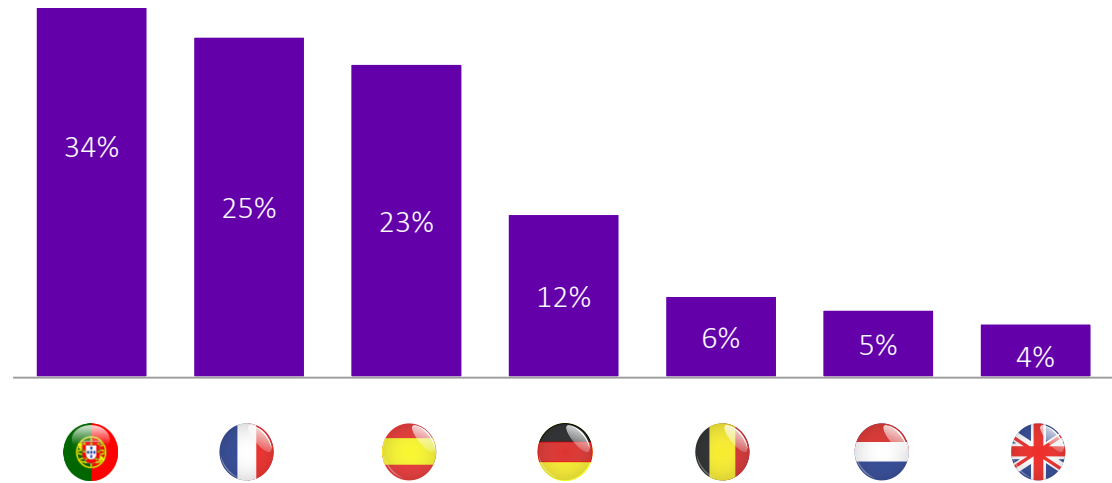
- Always connected
- Best performance
- Best value

Delivers fully converged services

	Voice	- Fixed - Mobile	
	Data	- Office/home - On the go	
	Content	- Any platform	

- Shared allowances
- Services across multiple devices
- Personalised experience

Convergence in Europe



Source: McKinsey – based on quad-play penetration

- Increasing trend towards convergence in Europe
- Lower churn, driving loyalty in the base
- Low UK penetration and strong latent demand

Customer experience improved with converged and digital products

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Consumer

- Lead in convergence – improve economics of FMC¹
- Use data and digital channels to improve marketing and service
- Personal and local service with nationwide retail
- Strong portfolio of brands
- Multi-channel distribution

Enterprise

- Improve customer experience while reducing cost to sell/serve
- Protect and grow core connectivity market share, focussing on cross-selling and technology migration
- Create new revenue streams in selected adjacency offerings to add new high margin revenue e.g. security, IoT
- 4G Assure and BT One Phone already launched

Global Services

- Digital GS – new products with differentiated service and security offerings
- Partnership business model – leverage benefits of partnerships
- Agile connect and cloud security
- De-emphasise low margin revenue streams

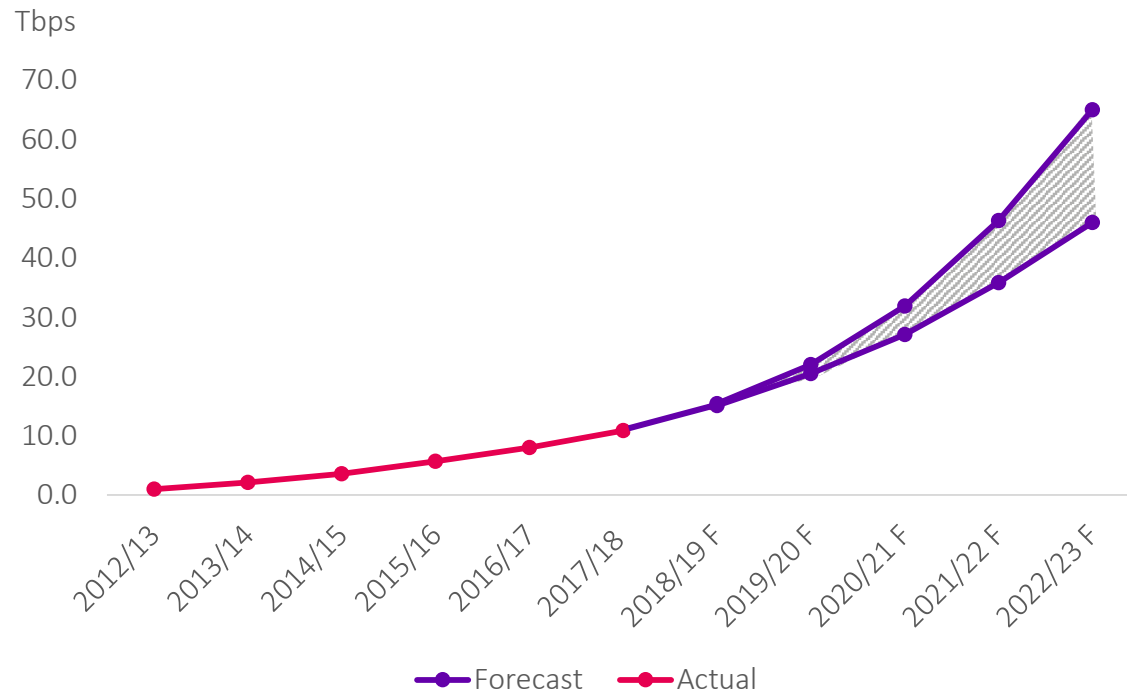
Convergence lowers churn, increases loyalty and improves economics

¹ Fixed, Mobile Converged products

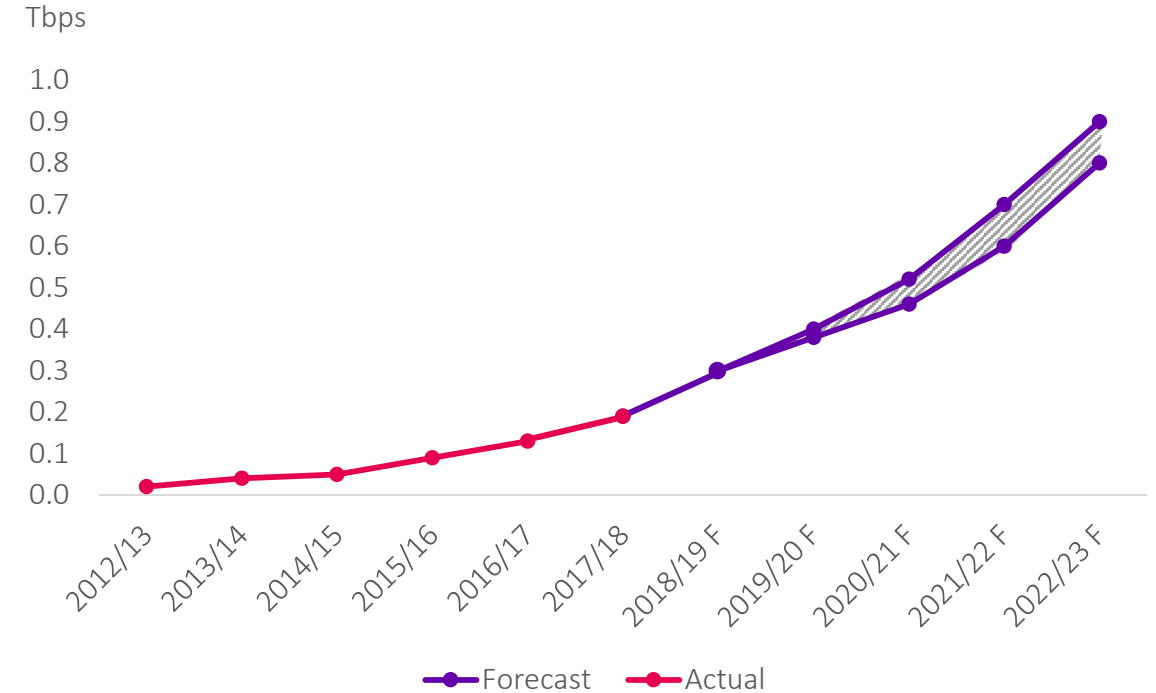
Exponential growth in data consumption and network capacity requirements

1.	BT's current market position
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3.	Strategy evolved to focus on convergence
4.	Actions to improve performance

Total Fixed Broadband Demand¹



Total Mobile Throughput¹



- Government and Ofcom promoting FTTP infrastructure competition
- Multiple ultrafast projects announced across the market

- Mobile data traffic growth continues
- Heavy investments in mobile infrastructure are needed in the mid-term

Source: BT
¹ actual and forecast growth on BT networks



Invest in integrated network leadership

1. BT's current market position
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4. Actions to improve performance

Mobile

- Build 4G to 95% geographic coverage
- Lead the market to 5G
- Secure 3.4GHz (40 MHz) and 700MHz spectrum

Fixed

- Continue to expand our super fast footprint:
 - Win further public sector superfast projects (BDUK¹)
 - Engage with the Government and Ofcom on the USO²
- Invest in ultra fast with 'Fibre First' programme:
 - Ambition 10m FTTP by mid 2020s
 - Deploy Gfast in non-FTTP areas
- Deliver the all-IP future:
 - Lead the market to single-order products
 - Close PSTN³
 - Reduce operating costs

A single integrated network

- Build seamless converged access across fixed, Wi-Fi, and mobile
- Build out integrated core and backhaul network



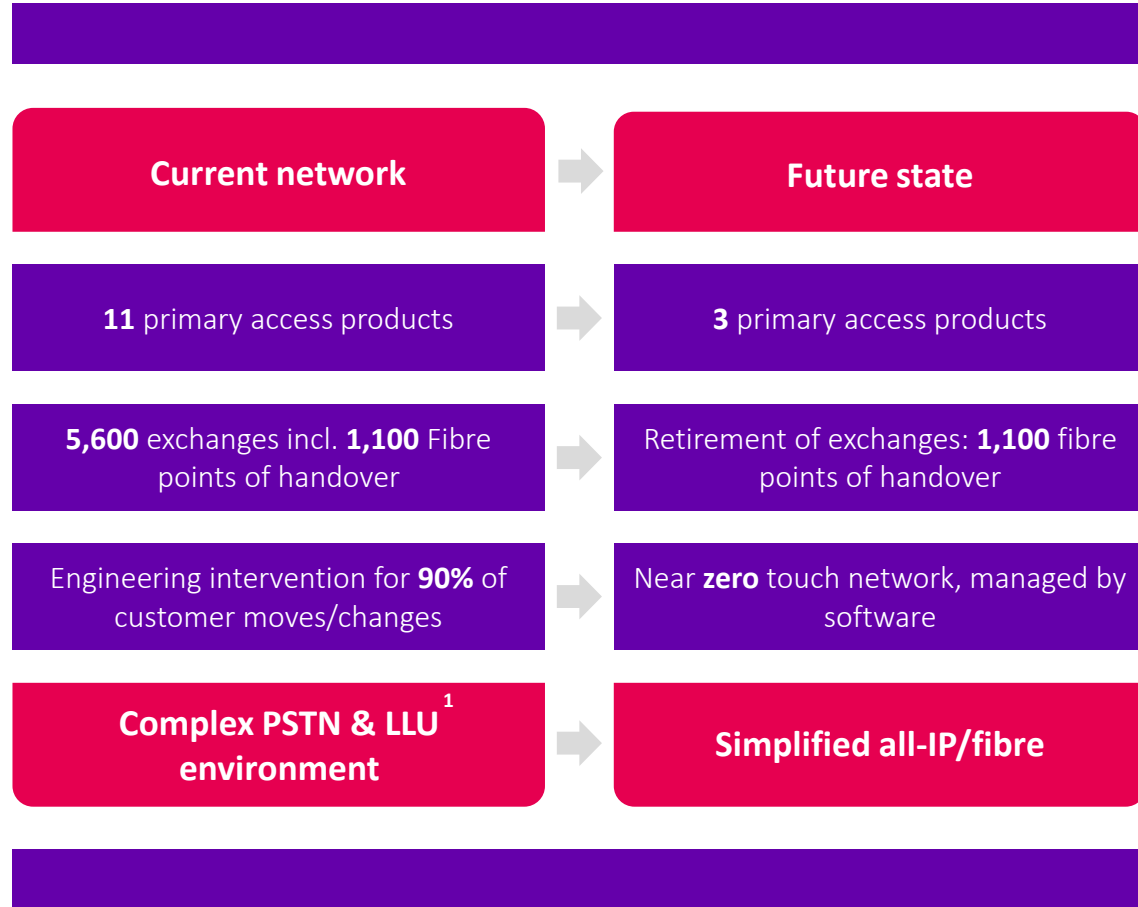
¹ Broadband Delivery UK

² Universal Service Obligation

³ Public Switched Telephone Networks

All-IP/fibre delivers performance, efficiency and service

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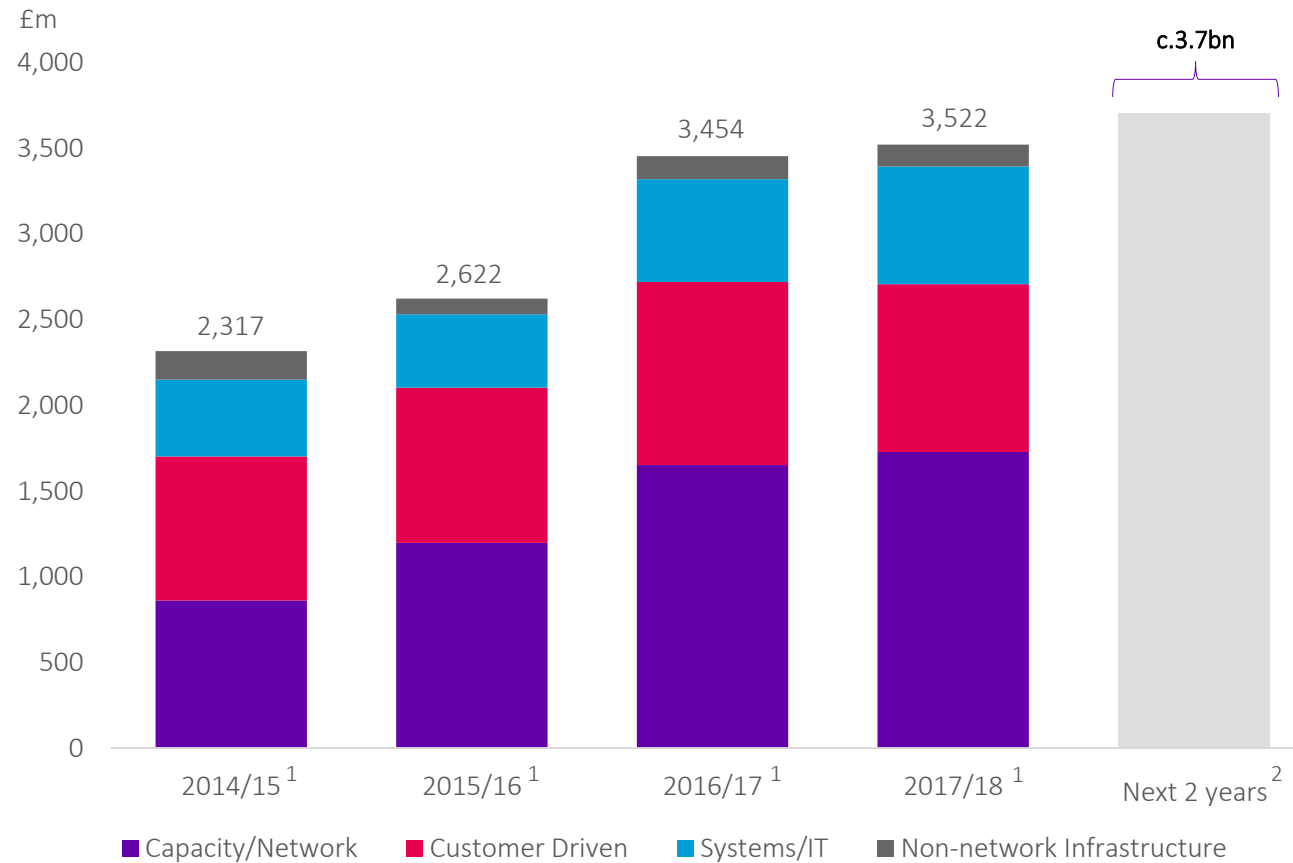


¹ Local Loop Unbundled

Increased capex to support network investment

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4. Actions to improve performance

Capital expenditure year ended 31 March 2018



¹ gross BDUK grant funding deferral (claw-back) included in capacity/network: 2014/15: £29m; 2015/16: £229m; 2016/17: £188m; 2017/18: £122m

² excluding BDUK claw-back



1.	BT's current market position
2.	Market environment
3.	Strategy evolved to focus on convergence
4.	Actions to improve performance

On track with current cost transformation projects

c.£19.8bn annual cash costs

EE integration synergies

- Achieved £290m annual cost synergy run-rate at year end 2017/18
- On track for target of £400m p.a. costs and £1.6bn NPV¹ revenue by end 2019/20
- Savings from renegotiating supplier terms, insourcing, rationalising sites

Restructuring programme

- Achieved 70% of roles target at Q4, and £180m of in-year savings
- On track for target of 4,000 roles reduced and £300m annual savings by 2018/19
- Incurred £241m at year end, of total restructuring cost of £300m

Operational performance improvement

- Creation of single customer experience and transformation function
- Improvements in front line productivity e.g. call centres, 6.6m active users a month of My BT and My EE
- Streamlining back office through automation and shared services

All current cost transformation projects on track

¹ Net Present Value



Transform our operating model

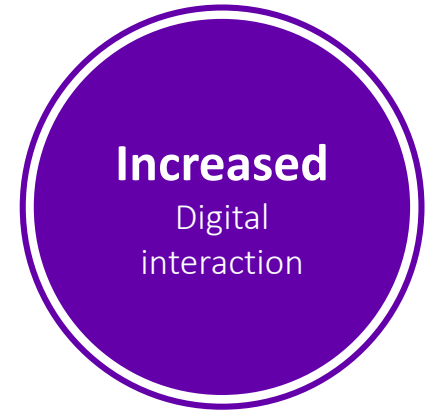
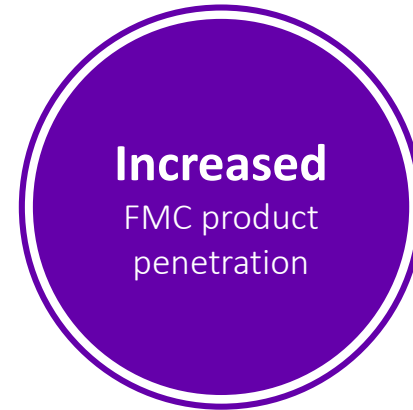
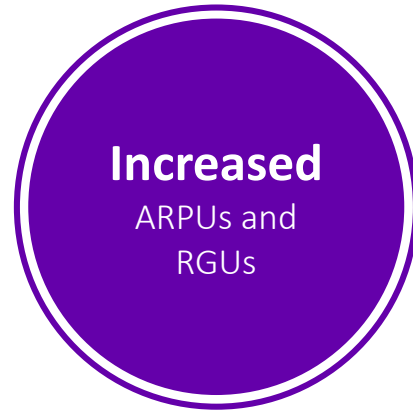
1. BT's current market position
2. Market environment
3. Strategy evolved to focus on convergence
4. Actions to improve performance



Transformation drives long-term growth¹

1. BT's current market position
2. Market environment
3. Strategy evolved to focus on convergence
4. Actions to improve performance

Deliver differentiated customer experiences



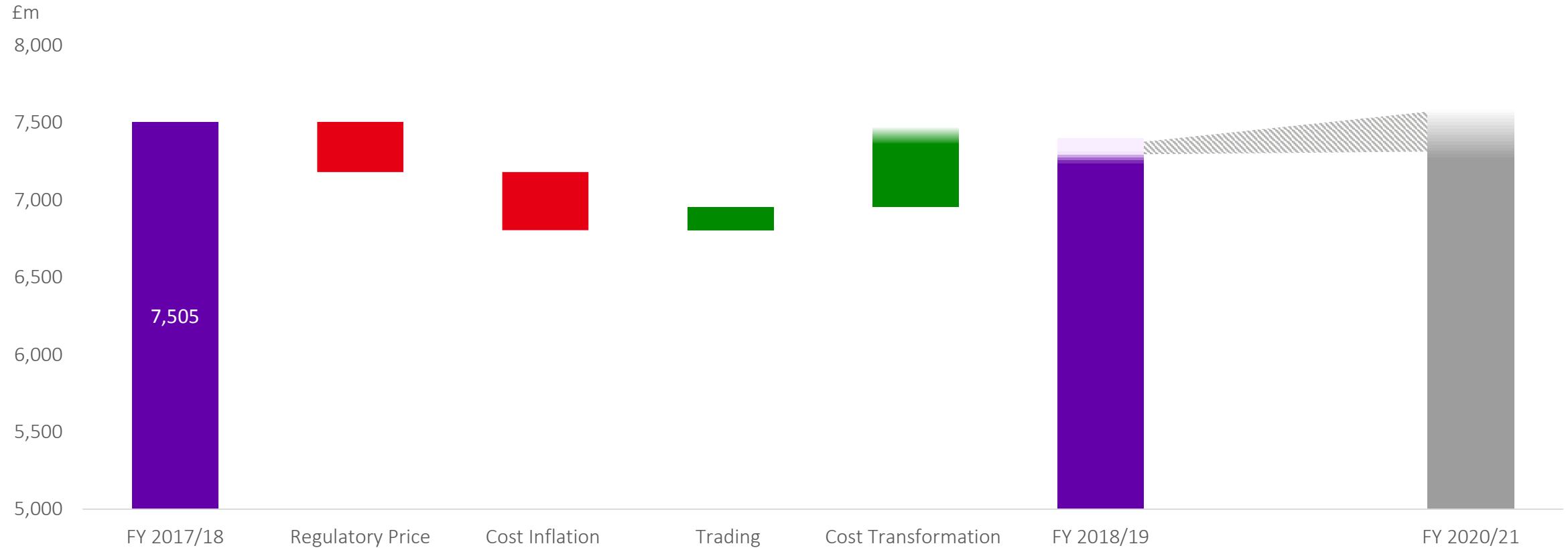
Transform our operating model



¹3-year targets



Transformation offsets regulation impact in short term



Transformation drives medium term EBITDA growth

2018/19 financial outlook

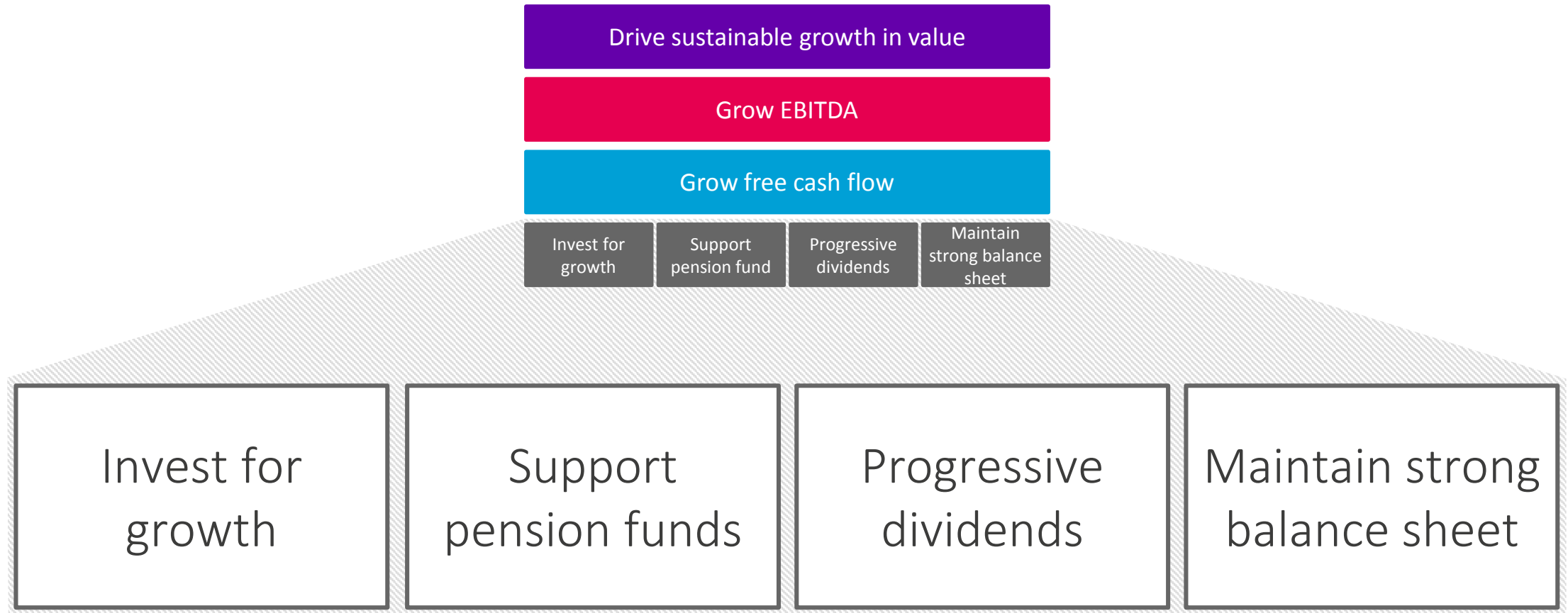
	2017/18 Actual	2018/19 Forecast
Change in underlying revenue¹	(1.0)%	c.(2)%
EBITDA²	£7.5bn	£7.3bn - £7.4bn
Capital expenditure	£3.5bn	c.£3.7bn
Normalised free cash flow³	£3.0bn	£2.3bn - £2.5bn
Dividend per share	Unchanged	Unchanged

¹excludes specific items, foreign exchange movements and disposals

² before specific items

³ before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

Priorities for cash flow



Deliver sustainable long-term value to shareholders

