



# BT Group plc Q3 2018/19 trading update

31 January 2019

# Forward-looking statements caution

---

Certain statements in this trading update 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; our roll out of FTTP; and launch of 5G.

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, consultations licence fees and market reviews, outcomes of appeal and conditions or requirements in BT's operating areas, including the outcome of Ofcom's Business Connectivity Market Review (BCMR), Physical Infrastructure Market Review (PIMR), spectrum auctions, broadband USO and other consultations; as well as competition from others; 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; 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; disruption to our technology supply chain; the anticipated benefits and synergies of the transformation of our operating model, integration, restructuring and cost transformation not being delivered; the outcome of BT's broader review of financial processes, systems and controls across the Group; 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.

**Gavin Patterson**  
Chief Executive

## Q3 trading highlights – 2018/19 outlook maintained

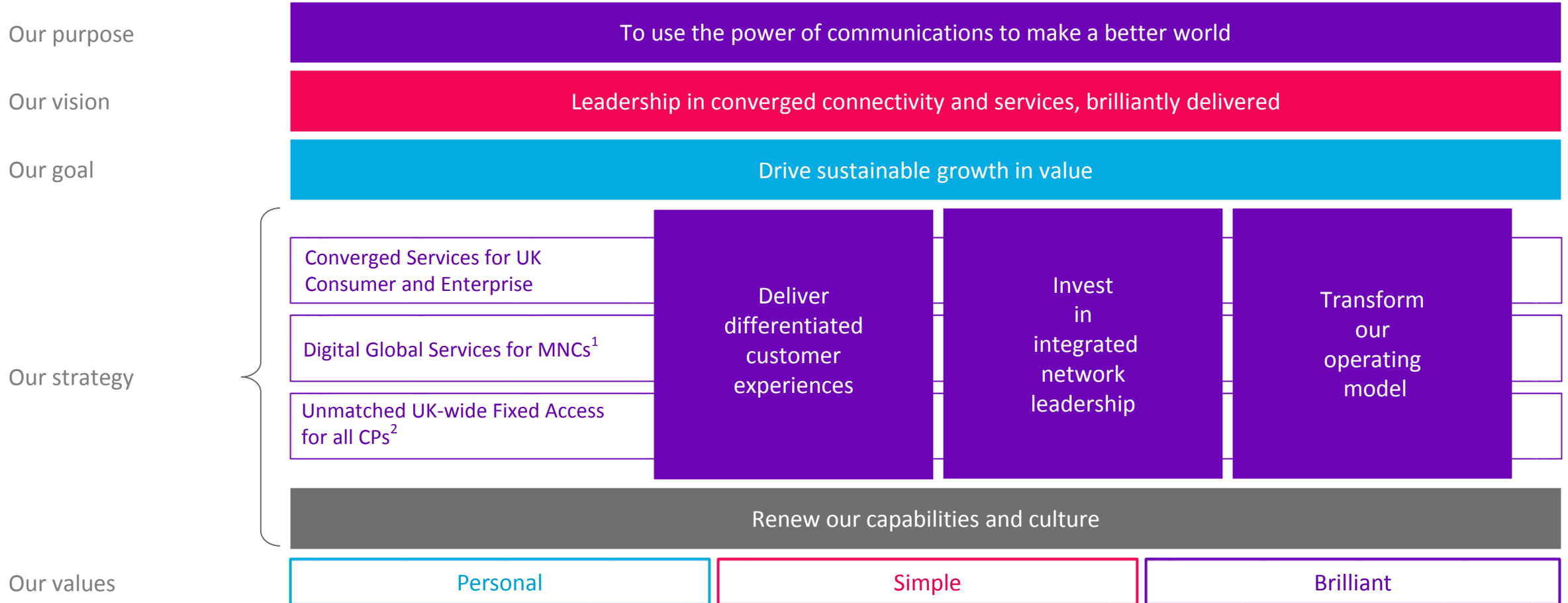
	Q3 2018/19 (IFRS 15)	Q3 2017/18 (IFRS 15 pro forma unaudited)	Change
<b>Revenue</b> <sup>1</sup>	£5,982m	£6,065m	(1)%
– underlying <sup>2</sup>			(1)%
<b>EBITDA</b> <sup>1</sup>	£1,878m	£1,936m	(3)%
<b>Capex</b>	£977m	£878m	11%
<b>Normalised free cash flow</b> <sup>3</sup>	£763m	£702m	9%

<sup>1</sup>before specific items

<sup>2</sup>before specific items, foreign exchange movements and disposals

<sup>3</sup>before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

# BT Group strategy



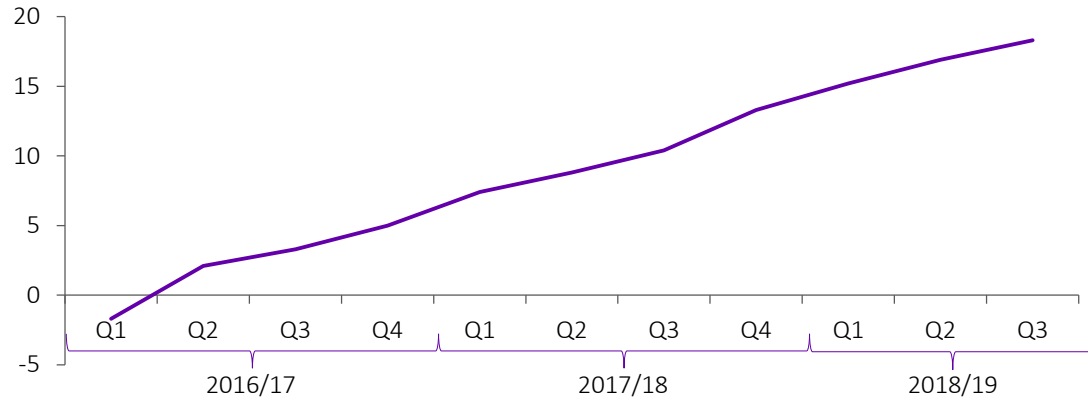
<sup>1</sup>Multi-National Corporations

<sup>2</sup>Communications Providers

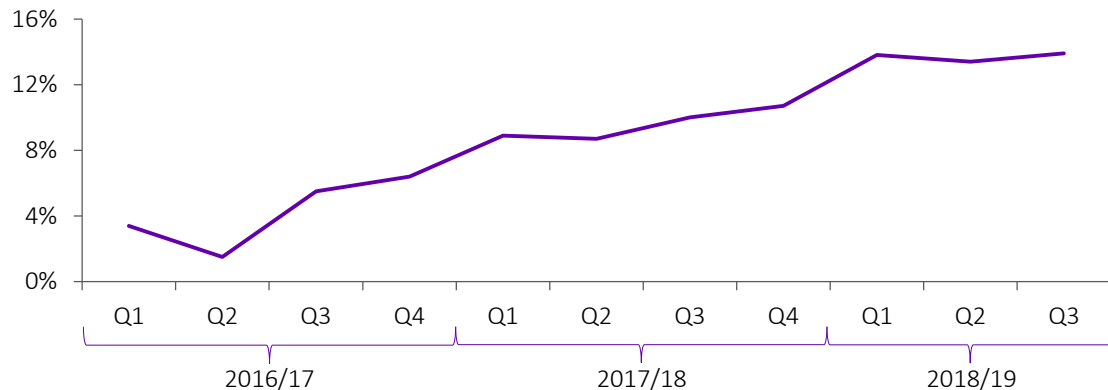


# Deliver differentiated customer experiences

## Movement in Group Net Promoter Score (NPS)<sup>1</sup>



## Movement in Group Right First Time (RFT)<sup>2</sup>



<sup>1</sup>Group 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.

<sup>2</sup>Group 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.

- Group NPS and RFT continue to improve:
  - ten consecutive quarters of Group NPS improvement
- Service:
  - Openreach ahead on all 42 Ofcom copper and fibre minimum service levels
  - Openreach best ever Ethernet provisioning
  - Ofcom complaints reflect Q2 price increase: YoY improvement for lines and broadband
  - increased BT Sport viewing across all platforms
  - BT mobile, broadband and voice customers moving to annual CPI price increases – no increase in 2019
- Products:
  - BT Plus introduced Complete Wi-Fi
  - Enterprise launched new features to BT Net
  - Global Services launched Cloud Connect for Google

# Invest in integrated network leadership

## Fixed

- FTTP<sup>1</sup> deployment at c.13,000 premises/week with focus on commissioning in Q3
- Building in 14 locations – further 11 locations announced
- FTTP costs remain at lower end of expectations
- c.2.6m premises passed with ultrafast technology
- Openreach volume discount deal – c.680,000 fibre broadband net adds in Q3

- 5G launch locations
- Existing and announced FTTP locations
- FTTP and 5G launch location



- Barking & Dagenham
- Bexley
- Croydon
- Harrow
- Merton
- Richmond upon Thames

## Mobile

- Continuing to improve 4G geographic coverage
- Demonstrated 5G capability in London
- Plans to roll out 5G in 16 UK cities in 2019
- 5G launch plan includes home router and a number of handset partners
- EE again ranked UK's best mobile network by both Rootmetrics and P3

<sup>1</sup>Fibre-to-the-Premises

# Transform our operating model

---

- Hundreds of ongoing transformation initiatives:
  - Global Services launched five scalable digital solutions
  - Openreach trials showing 20% - 30% lower repeat fault performance
  - Consumer introducing tools, training and improved processes to reduce compensation claims
  - Enterprise using small cells to provide scalable mobile capacity and coverage
  - Technology deploying high efficiency rectifier technology to reduce energy consumption across the exchange estate
- Transformation activity delivered c.800 role reductions in Q3:
  - c.2,800 roles removed year to date
  - transformation programme on track



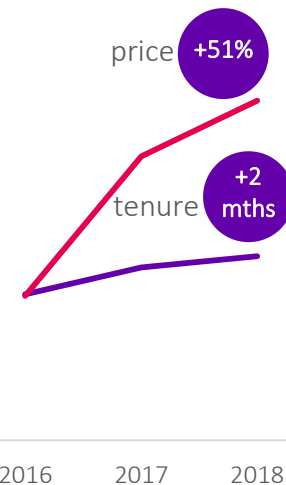


# Consumer – solid performance in tough market conditions

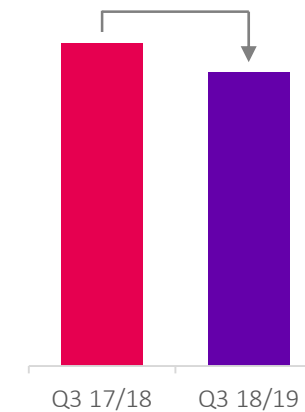
- Revenue up 4%:
  - benefit of September 2018 BT price increase
  - increase in handset costs for customers
  - offset by Solus voice price reductions
- EBITDA up 15%, driven by BT price increase and one-off prior year adjustment
- Challenging market conditions:
  - slowing high-end smartphone sales
  - continued aggressive broadband price competition
  - regulatory headwinds
- Ofcom review of broadband pricing and end of contract notifications

	Q3 2018/19	Q3 2017/18	Change
Revenue	£2,785m	£2,680m	4%
EBITDA	£643m	£558m	15%

Rising smartphone retail price and tenure



Declining high-end smartphone volumes



Revised broadband pricing approach

	Prior	New
Frequency	c.9 months	12 months
Uplift	c.6%	CPI
Incl in T&Cs <sup>1</sup>	✗	✓

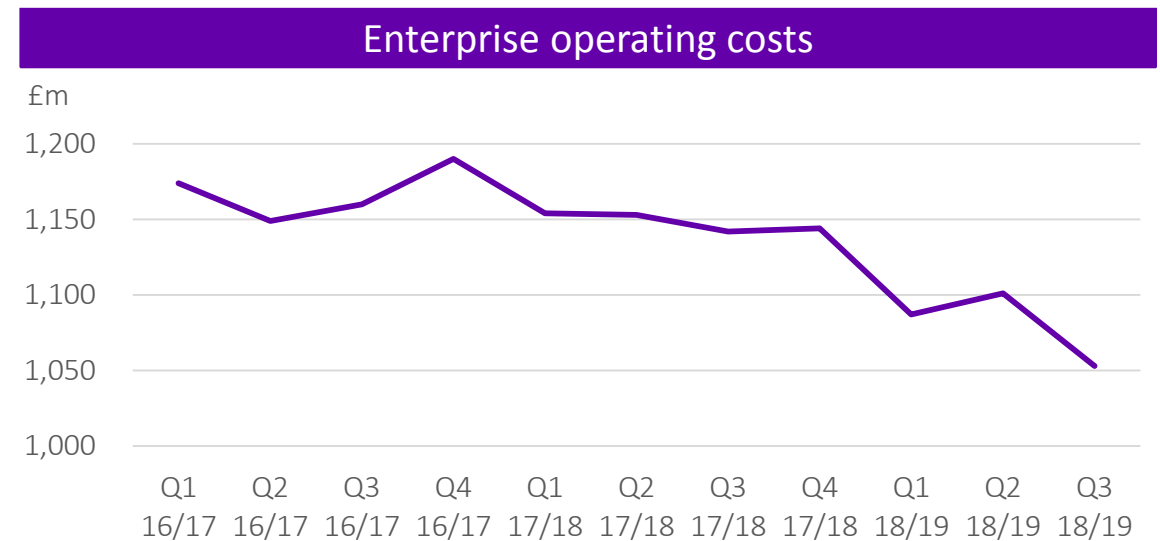
<sup>1</sup>Included in customer Terms and Conditions



# Enterprise – Public Sector continues to perform well, legacy pressures continue

- Revenue down 6% due to:
  - continued declines in traditional voice and other legacy products, lower equipment sales, and sale of cables business
  - partly offset by growth in networking, IP, and Ventures messaging volumes
  - fixed down 8%, mobile up 2%
- EBITDA down 2%:
  - reflects revenue decline, partly offset by lower operating costs
- Public Sector continues to perform well:
  - 5 year cyber security services contract with Police ICT Company
  - 2 year mobile services contract with HMRC
  - 3 year mobile services contract with Police Scotland

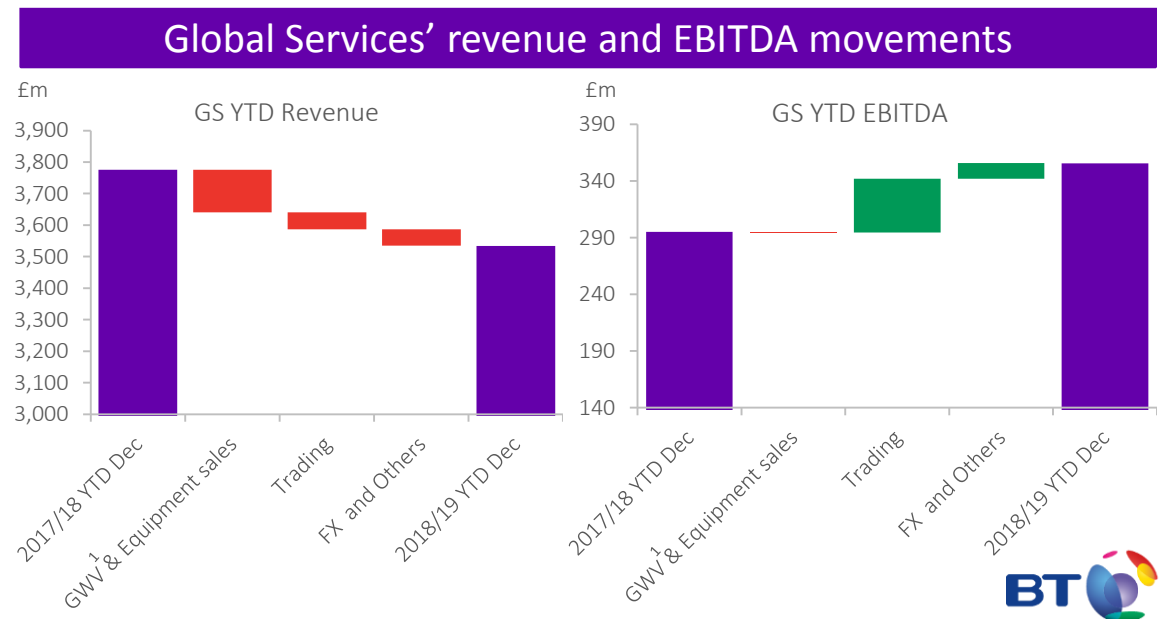
	Q3 2018/19	Q3 2017/18	Change
Revenue	£1,555m	£1,654m	(6)%
EBITDA	£501m	£512m	(2)%



# Global Services – steady improvement in performance

- Revenue down 5% due to:
  - decision to reduce low margin business
- EBITDA up 4% driven by:
  - positive cost performance
- Delivering steady progress against Digital GS strategy:
  - strong industry ratings in Q3 for Unified Communications and Managed Security services
  - first international provider to receive telecoms licences in China

	Q3 2018/19	Q3 2017/18	Change
Revenue	£1,202m	£1,265m	(5)%
EBITDA	£147m	£141m	4%



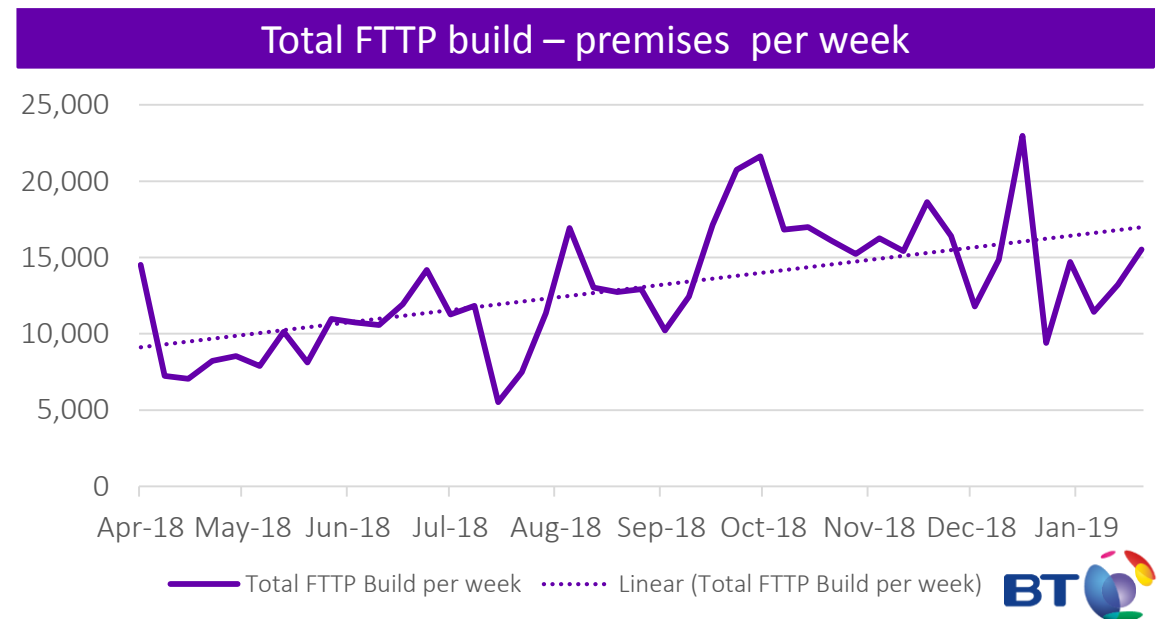
<sup>1</sup>Global Wholesale Voice



# Openreach – increasing take up of FTTC<sup>1</sup> and Ethernet

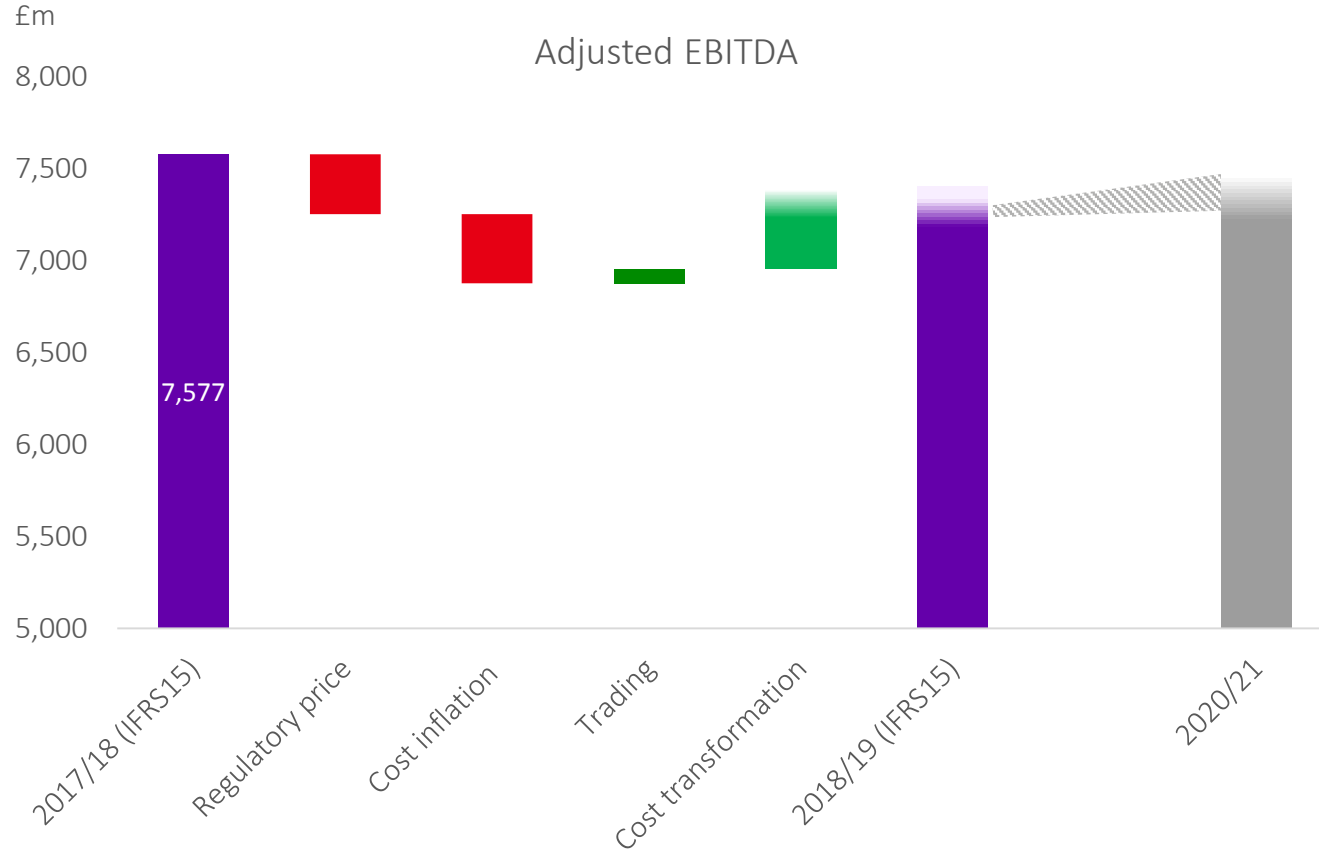
- Revenue down 9% due to:
  - regulation, volume related discounts, physical line losses, and one-off IFRS 15 benefit last year
  - offset by continued growth in FTTC<sup>1</sup> and Ethernet
- EBITDA down 19% due to:
  - revenue decline and pay inflation
  - partially offset by efficiency savings
- Positive engagement with Ofcom on a number of regulatory reviews:
  - seeking further clarity on key enablers to underpin expansion of FTTP target

	Q3 2018/19	Q3 2017/18	Change
Revenue	£1,256m	£1,379m	(9)%
EBITDA	£603m	£747m	(19)%



<sup>1</sup>Fibre-to-the-Cabinet

# Summary – medium term outlook unchanged



- Consistent delivery against strategic pillars
- Sound operational and financial performance
- Increasing market and regulatory challenges
- 2018/19 outlook maintained
- Medium term outlook unchanged

