



BT Group plc Q4 and FY 2018/19 results

9 May 2019

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Philip Jansen
Chief Executive

Initial impressions positive but we need to build a better BT for the future

- BT has an important role in UK society
- Challenging market conditions
- Business overall in good shape:
 - strong market position
 - solid results
- Positive progress against core pillars
- Need to increase investment to future-proof BT:
 - improve customer propositions and competitiveness
 - create the best converged network
 - accelerate business transformation

Need to be
bolder,
smarter
and
faster
to future-proof BT

Simon Lowth
Chief Financial Officer

2018/19 – a year of solid execution and delivery against core pillars

- Solid financial and operational results
- Differentiated customer experience:
 - continued improvement in Group NPS¹
 - launched BT Plus and 4G Assure, our first converged offerings
- Creating the best converged network:
 - doubled FTTP² footprint to 1.2m
 - continued recognition for the quality of our 4G network
 - preparing for imminent 5G launch
- Creating a simple, lean and agile organisation:
 - formed Enterprise and employees transferred to Openreach Limited
 - reduced gross roles by 4,000
 - outsourced facilities management
 - increased procurement savings
- More constructive and collaborative relationship with external stakeholders



¹Net Promoter Score

²Fibre-to-the-Premises

Q4 and full year 2018/19 results – financial overview

	Q4 2018/19	Change YoY	FY 2018/19	Change YoY
Adjusted revenue¹	£5,853m	(1)%	£23,459m	(1)%
– underlying ²		Flat		(0.9)%
Operating costs³			£16,067m	(0.4)%
Adjusted EBITDA¹	£1,839m	(10)%	£7,392m	(2)%

Prior year comparatives on IFRS15 pro forma basis

¹ before specific items

² excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

³ before specific items and depreciation and amortisation

Full year 2018/19 – EBITDA progression



Transformation drives medium term EBITDA growth

Q4 and full year 2018/19 results – financial overview

	Q4 2018/19	Change YoY	FY 2018/19	Change YoY
Adjusted EBITDA¹	£1,839m	(10)%	£7,392m	(2)%
Depreciation and amortisation			£(3,546)m	1%
Net finance expense ¹			£(617)m	13%
Tax ¹			£(619)m	(8)%
Associates and joint ventures			£1m	n/m
Profit after tax¹	£632m	(28)%	£2,611m	(6)%
Specific items			£452m	(39)%
Profit for the period			£2,159m	6%
Adjusted EPS ²			26.3p	6%

¹before specific items

²earnings per share

Full year 2018/19 results – cash flow

	Q4 2018/19	Change YoY	FY 2018/19	Change YoY
Adjusted EBITDA¹	£1,839m	(10)%	£7,392m	(2)%
Interest and tax			£(1,212)m	7%
Change in working capital and other			£(103)m	(29)%
Capital expenditure ²	£(989)m	(17)%	£(3,637)m	9%
Normalised free cash flow³	£703m	(31)%	£2,440m	(18)%
Refund on acquisition of spectrum ⁴			£21m	n/m
Specific items			£(598)m	28%
Reported free cash flow			£1,863m	2%
Free cash flow post pension deficit payments			£(1,401)m	(104)%
Net debt			£11,035m	15%

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 £325m deposit paid in Q4 for spectrum acquired in Q1 2018/19 for £304m

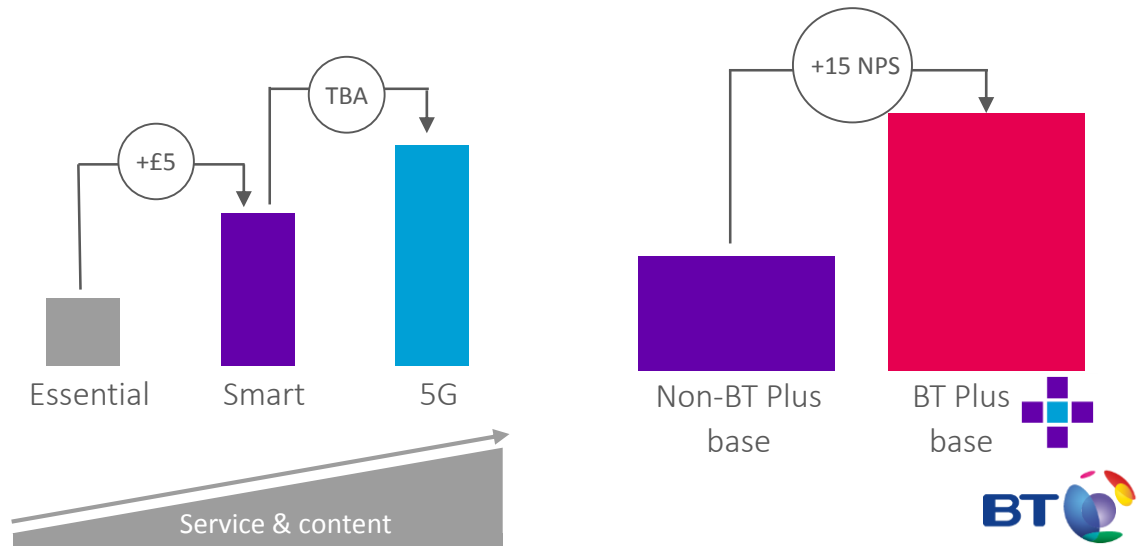
Consumer - solid growth in convergence, challenging market continues

- Revenue up 3%:
 - increase in high-end handset sales
 - growth in SIM-only base
 - impact of price changes
- EBITDA up 7%, revenue partially offset by higher trading costs
- Lower mobile churn, fixed churn stabilised
- Capex up 8%, increased network spend ahead of 5G launch
- BT Plus base now c.1m customers
- Improving customer experience:
 - 8% YoY reduction in service contacts
 - increases in self-serve app registrations: BT up 30% to 3m, EE up 10% to 12m
- Well placed for future

	Q4 2018/19	Change	FY 2018/19	Change
Revenue	£2,638m	3%	£10,695m	3%
EBITDA	£670m	(1)%	£2,534m	7%
Capex			£994m	8%

EE more-for-more pricing plans

BT Plus NPS benefit

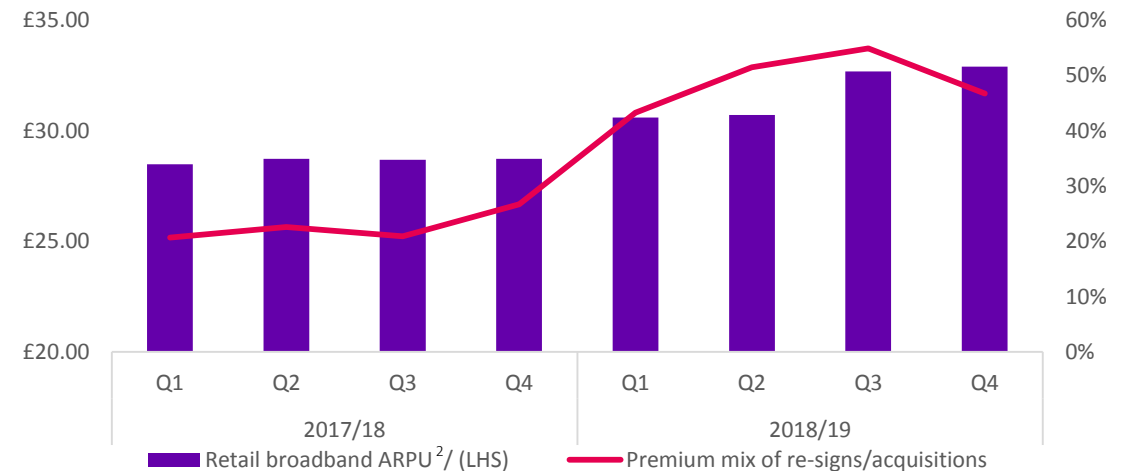


Enterprise – legacy pressures, strong cost control

- Revenue down 5% due to:
 - continued declines in traditional voice and other legacy products and lower equipment sales
 - partly offset by growth in networking, IP and Ventures messaging volumes
- EBITDA down 3%:
 - reflects revenue decline, partly offset by 6% decline in operating costs
 - MAPS¹ achieved EBITDA growth
- Good growth in retail broadband ARPU² with improving mix
- Enterprise NPS improved each quarter in 2018/19
- FY order intake declined reflecting some large contracts and re-sign timing in 2017/18; good mix of retail orders in Q4 2018/19

	Q4 2018/19	Change	FY 2018/19	Change
Revenue	£1,564m	(7)%	£6,292m	(5)%
EBITDA	£504m	(6)%	£1,990m	(3)%
Capex			£501m	2%

Retail broadband ave. revenue per user and premium share



¹ Major and Public Sector

² Average Revenue Per User



Global Services – continued progress against strategy

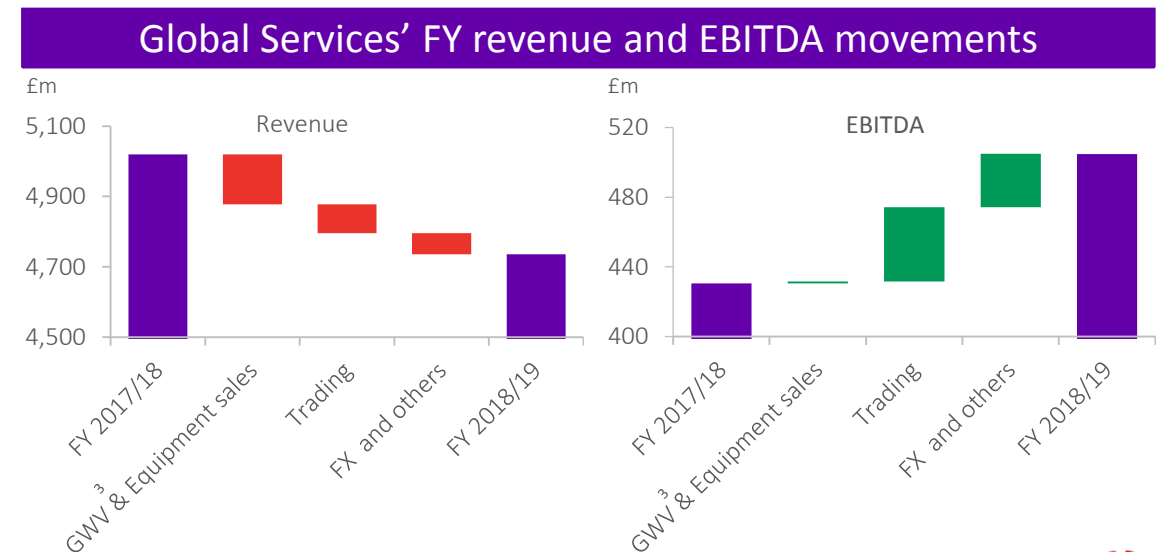
- Revenue down 6% driven by:
 - de-emphasis of low-margin business
 - divestments of non-core businesses
- EBITDA up 17% due to:
 - 8% reduction in operating costs
 - one-offs in the year
- Rolling 12-month order intake down 15% reflecting:
 - shift to shorter contract lengths and increased usage-based terms
- Progress against strategy:
 - shifting focus to 800 global MNC¹ customers
 - NPS score up 39 points from 2016/17 baseline
 - Security business revenue growth of 19% YoY

¹Multi-National Corporations

²excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

³Global Wholesale Voice

	Q4 2018/19	Change	FY 2018/19	Change
Revenue - underlying ²	£1,201m	(3)% (2)%	£4,735m	(6)% (4)%
EBITDA	£150m	11%	£505m	17%
Capex			£245m	(12)%

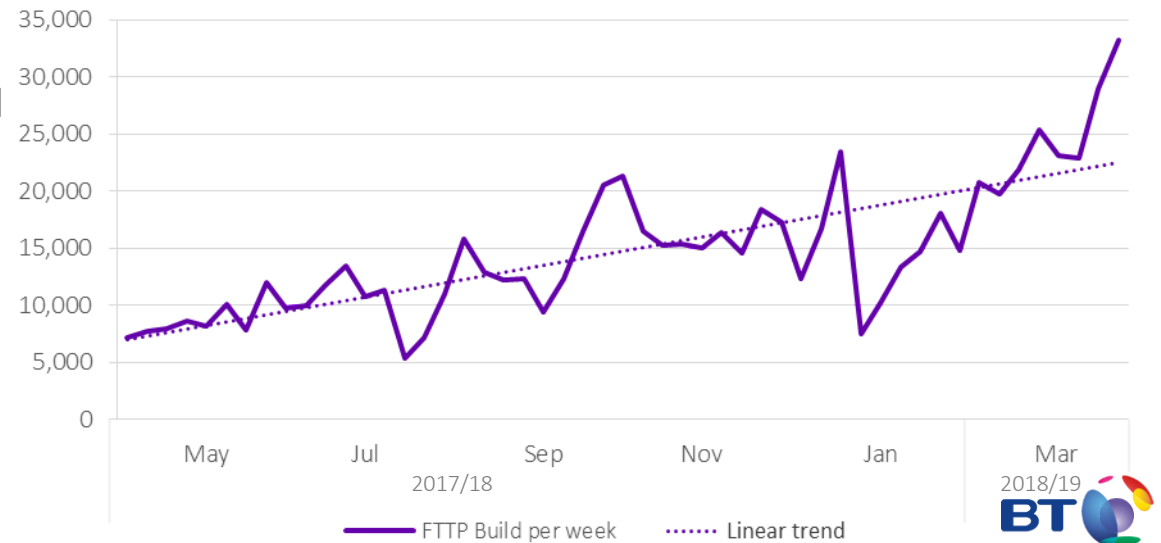


Openreach – building FTTP at scale and pace

- Revenue down 4% driven by:
 - regulation, volume-related pricing discounts, physical line losses, and one-off IFRS 15 benefit last year
 - partly offset by growth in FTTC¹ and Ethernet rentals
- EBITDA down 11% due to:
 - revenue decline, recruitment, pay inflation and business rates
 - partially offset by record FTTC¹ sales and efficiency savings
- Ultrafast now available to more than 3.2m premises:
 - FTTP footprint doubled in 12 months to 1.2m premises passed
- 687,000 fibre broadband net additions in Q4:
 - 12.2m premises connected, c.50% of those passed
- Maintained an all-time low of missed appointments where Openreach was at fault

	Q4 2018/19	Change	FY 2018/19	Change
Revenue	£1,271m	(4)%	£5,075m	(4)%
EBITDA	£595m	(12)%	£2,423m	(11)%
Capex			£2,081m	22%

Rate of FTTP² build – premises per week



¹Fibre-to-the-Cabinet

² includes cities, new build and BDUK programmes

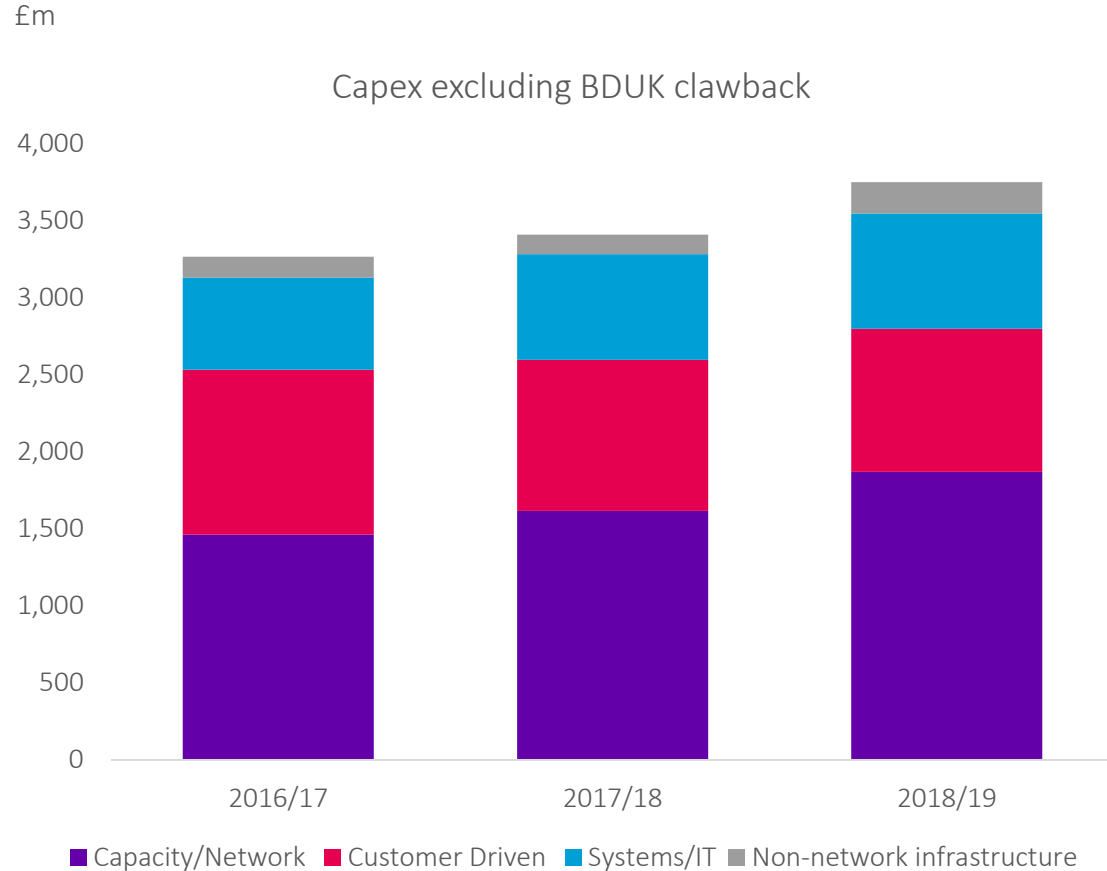
Cost transformation – encouraging progress, plans firmly on track

- Overall savings from the transformation programme running at an annualised benefit of £875m with associated costs of £386m¹
- Organisational restructuring:
 - over 4,000 roles removed
 - unit simplification, waste reduction, process improvement and automation
 - outsourced facilities management
- Increased procurement savings to offset price inflation and higher volumes associated with our capex plan:
 - supplier base further rationalised
 - long-term partnerships to secure better value multi-year deals



¹ in year three target of £1.5bn gross savings with £800m cost to achieve

Capex – increased further but headroom to be created



- 2018/19 reported capex of £4.0bn, increase driven by:
 - increase in base case take-up assumption under BDUK¹ programme
 - incremental FTTP programme spend
- Several programmes will scale back over next 2-3 years:
 - ESN² deployment capex passed its peak
 - expansion of VDSL³ capacity
 - energy efficient cooling equipment in exchanges
- Creates headroom to fund current FTTP build rate as build costs and connection volumes rise over time
- Ramping up FTTP build rate beyond current plans will require increased annual capex

¹ Broadband Delivery UK

² Emergency Services Network

³ Very High Speed Digital Subscriber Line

Pension – discount rate impacting IAS 19 deficit

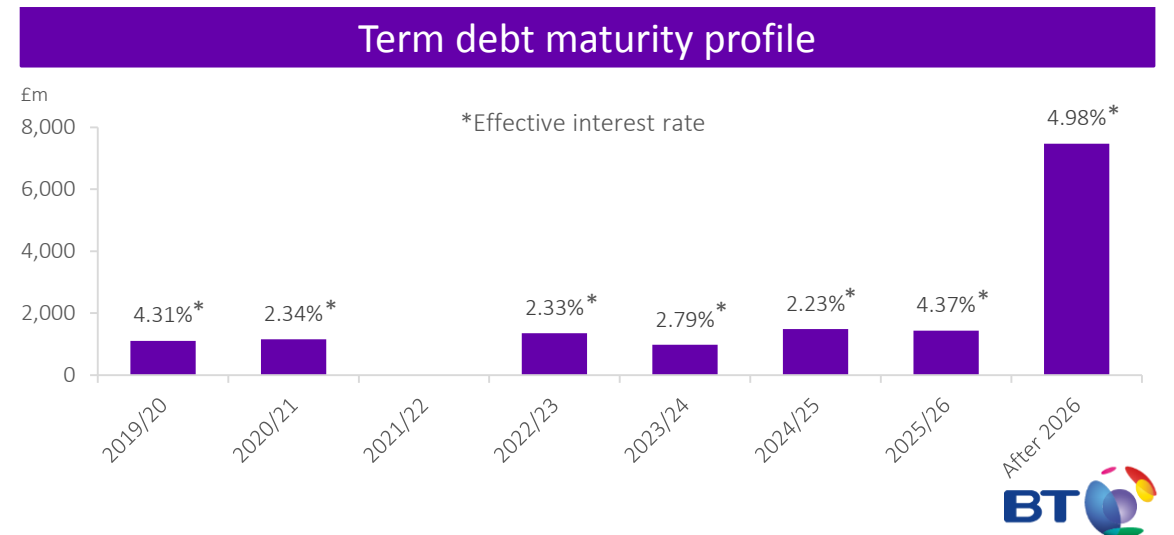
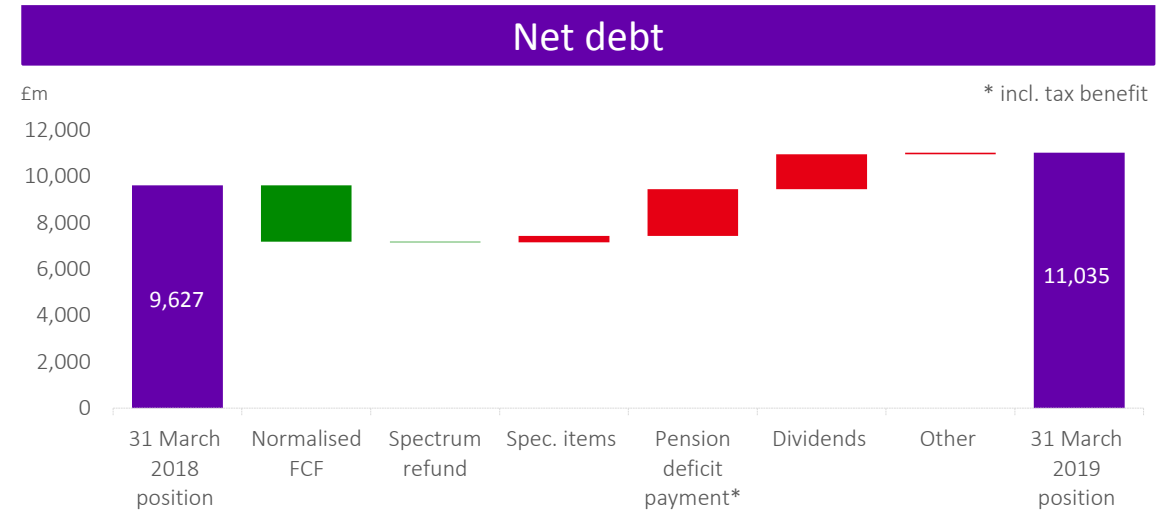
- IAS 19 deficit £6.0bn net of tax at 31 March 2019
- Increase compared to 31 March 2018 valuation driven by:
 - increase in liabilities due to fall in real discount rate
 - increase in assets and deficit contribution
- £26m impact on BT Group of High Court judgment on Lloyds Banking Group’s equalisation of pensions benefits
- Seeking permission to appeal the Court of Appeal judgment on indexation case



Balance sheet – strong with smooth, long-dated maturity debt profile

- Net debt increased by £1.4bn driven by:
 - £2.4bn normalised free cash flow offset by:
 - £2.0bn pension contribution, funded by the issuance of long-dated sterling bonds in June 2018, held by BTPS¹ on date of issuance
 - £1.5bn dividend payment
- Ample liquidity: £4.9bn cash and current investments and £2.1bn undrawn committed facilities
- Targeting BBB+ credit rating through the cycle:
 - currently BBB or equivalent
- Smooth, long-dated maturity profile

¹BT Pension Scheme



IFRS 16, cost reallocation, and Emergency Services Network contract

- IFRS 16 - new leases accounting standard effective 1 April 2019:
 - expect to recognise discounted lease liabilities of between £5.6bn - £6.6bn
 - EBITDA to increase and profit after tax to fall in the periods immediately following transition
 - net debt to increase as it will include leases liability
 - treatment of leases within capex and normalised free cash flow will be unchanged
- Internal cost allocation review across the Group:
 - no impact on a Group basis but will impact segmental results
- ESN contract to transfer from Consumer to Enterprise
- Refreshed Global Services KPIs

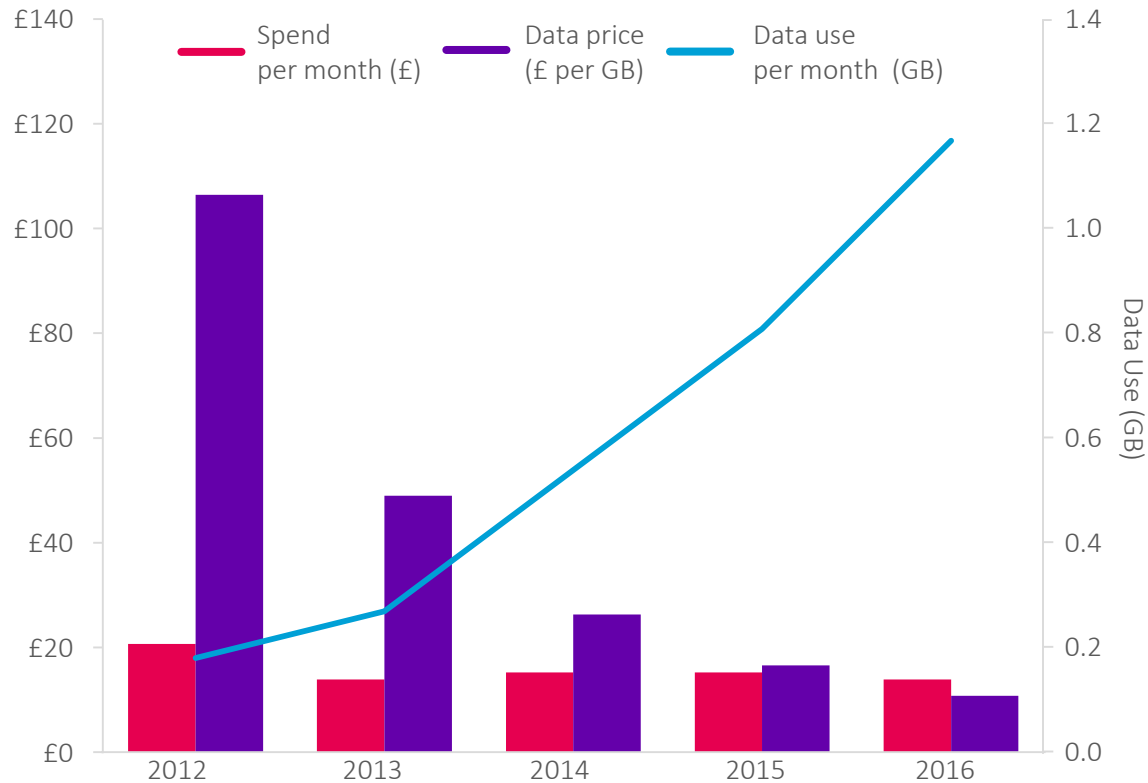


Pro forma financial information for 2018/19 to be issued to reflect implementation of above changes

Philip Jansen
Chief Executive

UK Telecoms remains a competitive market

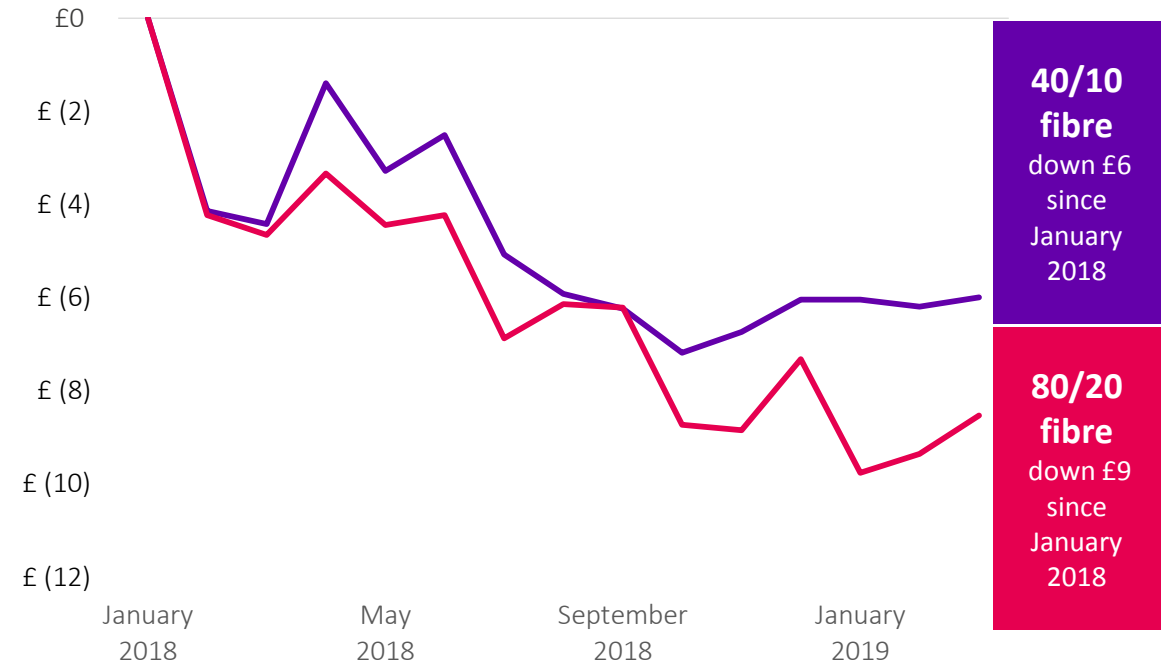
Mobile data price vs. per user spend for the UK



Source: Brian Williamson, Communications Chambers: 'Keeping an eye on the prize – investment in mobile networks to deliver coverage, capacity & the 5G strategy: A reappraisal of recurring spectrum fees', May 2018

Competitor fibre prices have fallen by between £6 and £9 since January 2018

Changes to average competitor fibre broadband acquisition prices, weighted by market share since from January 2018



Notes: Competitors included: TalkTalk, Sky, Virgin and Vodafone. Virgin prices based on 50Mbps and 100Mbps products

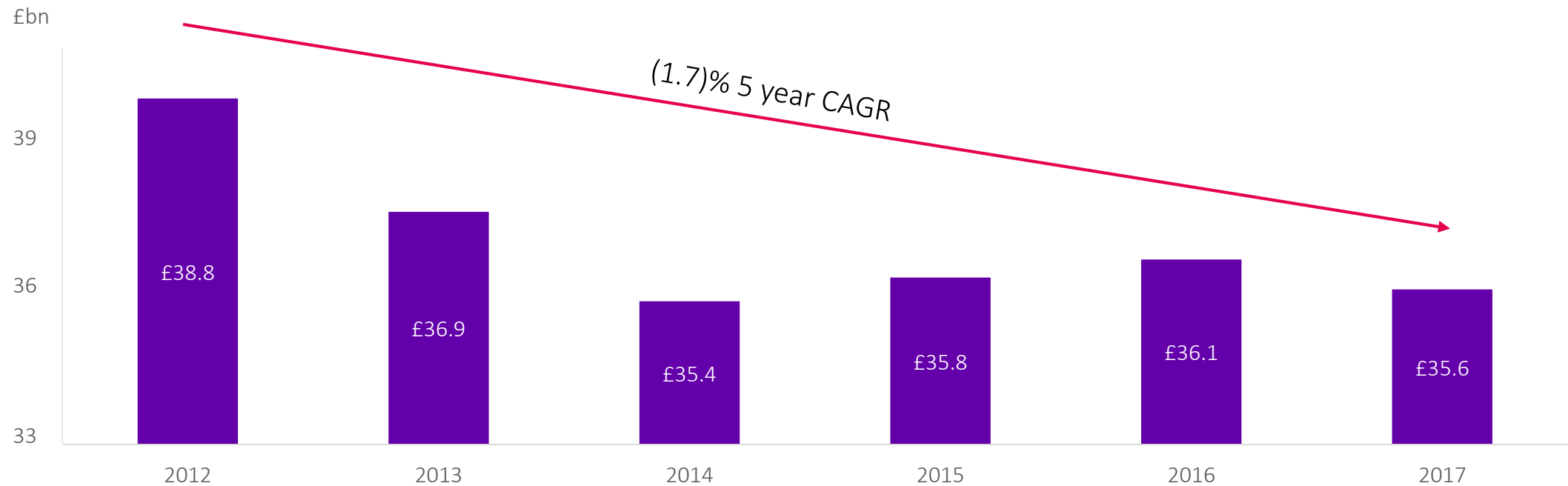
Sources: Fibre broadband prices from Magpie Competitor Analysis

Market share data from Operator results, 3Reasons, Enders Analysis and One KPI Dashboard



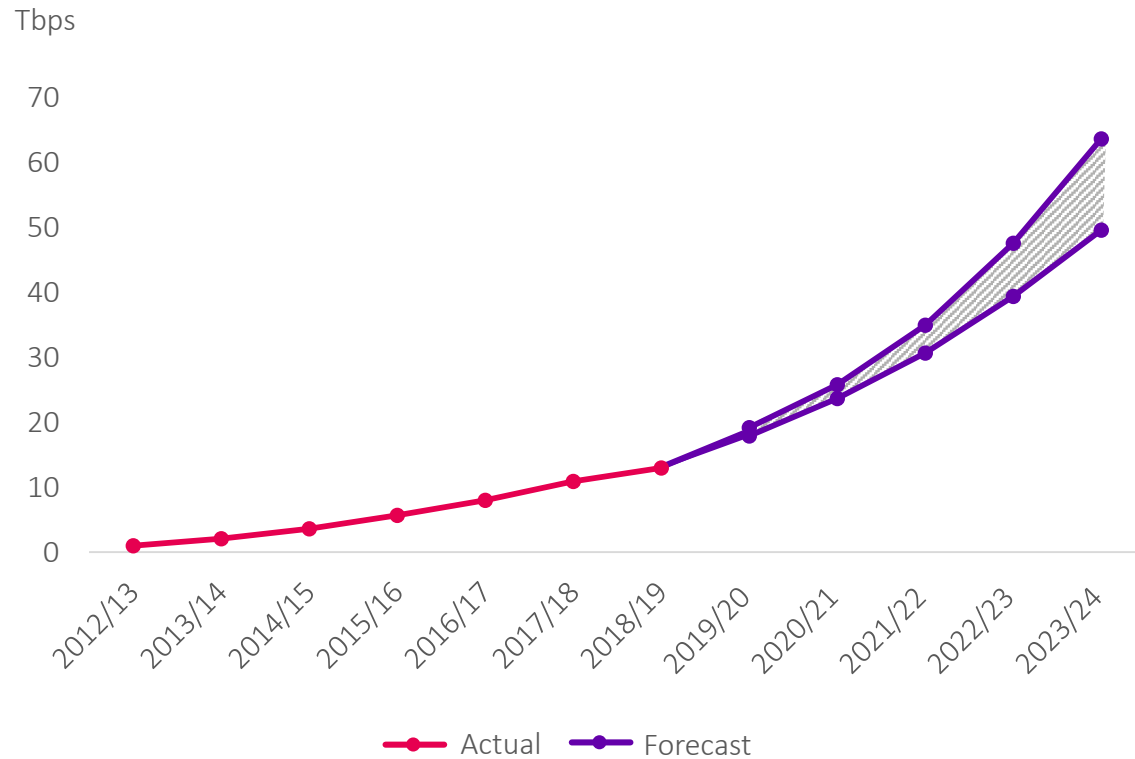
UK Telecoms revenue has declined and returns disappointing

UK Telecoms industry revenue

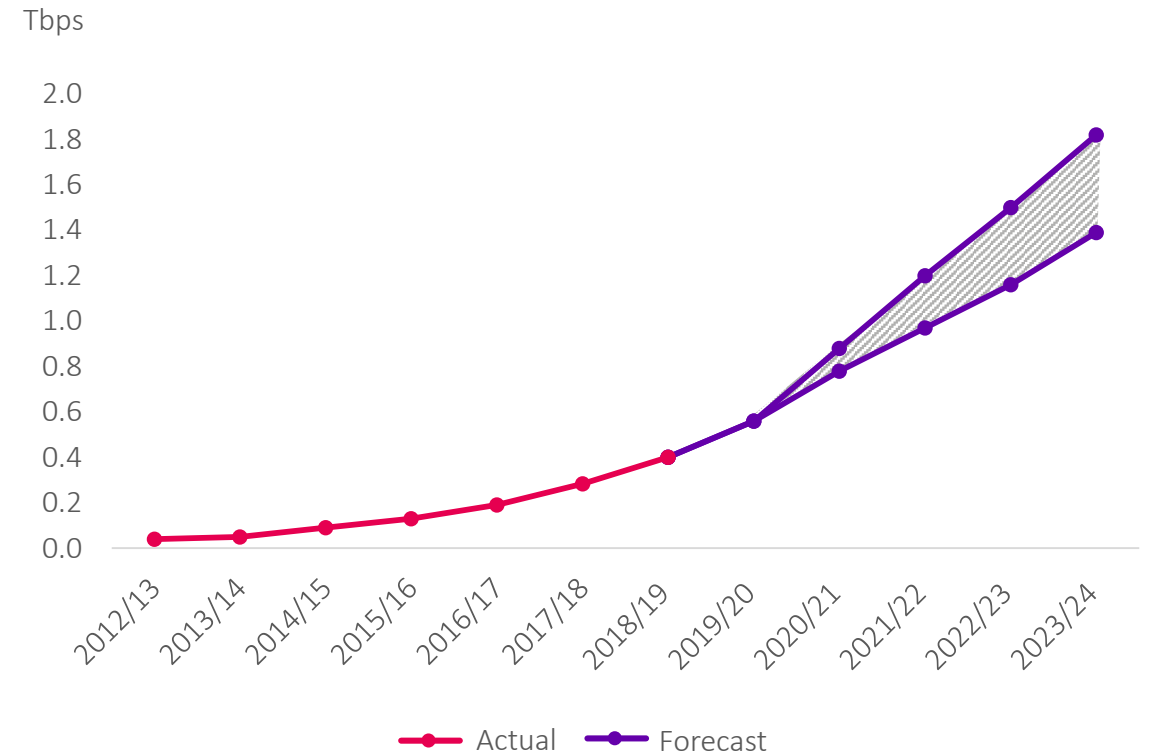


Exponential growth in data consumption - the opportunity for further investment

Total Fixed Broadband demand (Tbps)¹



Mobile demand (Tbps)¹

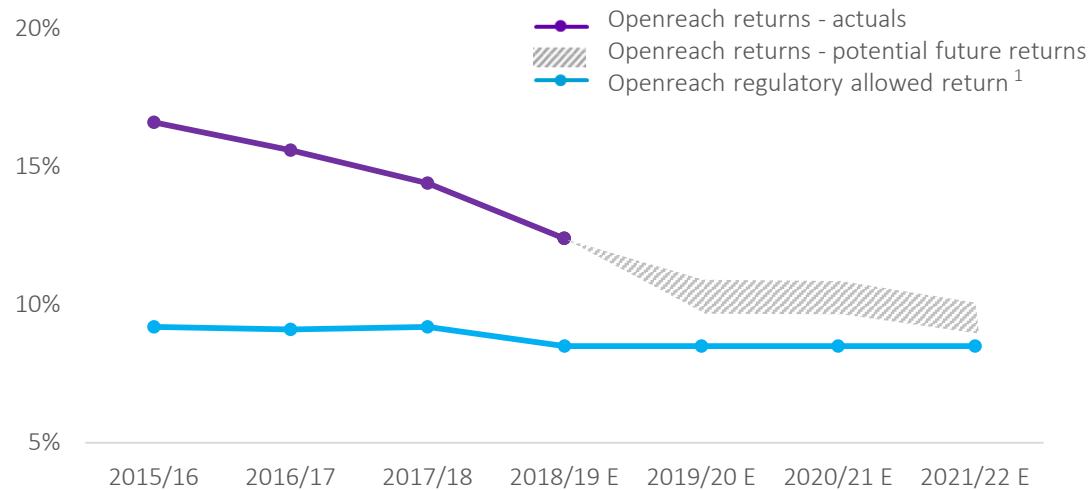


Source: BT
¹ actual and forecast growth on BT network



Openreach regulated returns continue to decline towards allowed return on capital

Trend of Openreach returns



Total impact on BT Group



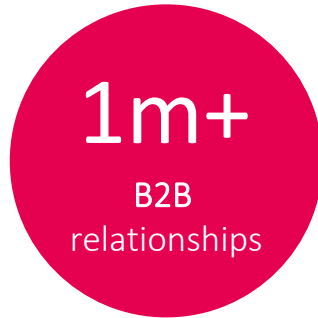
- Openreach returns moving towards regulated cost of capital
- Impact of regulation should reduce in the longer-term
- DCMS's 'Future Telecoms Infrastructure Review'
- Ofcom's 'Promoting Competition and Investment in Fibre Networks'

¹extrapolating WACC used in Ofcom's charge control models across all Openreach services

²assumes direct and indirect impact

We are uniquely positioned with many competitive strengths

BT is a clear market leader



BT has a portfolio of strong brands



Positioned across fixed, mobile and strategic partnerships

Fixed
infrastructure

Mobile
infrastructure

Strategic
partnerships

- Superfast speeds: c.90% coverage
- Greater than 3.2m ultrafast premises passed
- Award-winning 4G network
- 5G roll out in 2019
- Content, technology, device and service vendors

Multi channel sales and service

UK
& Ireland
contact
centres

> 600 stores

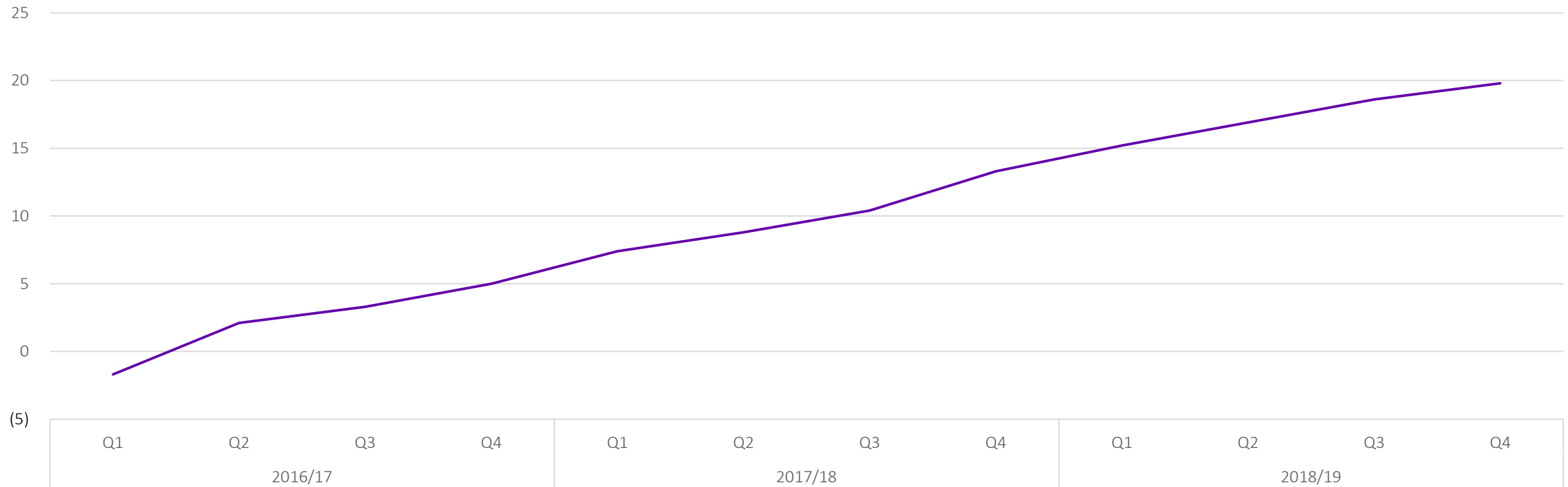
Digital

Partnerships

¹Multi-National Corporations

Differentiated customer experience – an improving outlook

Movement in Group Net Promoter Score (NPS)¹



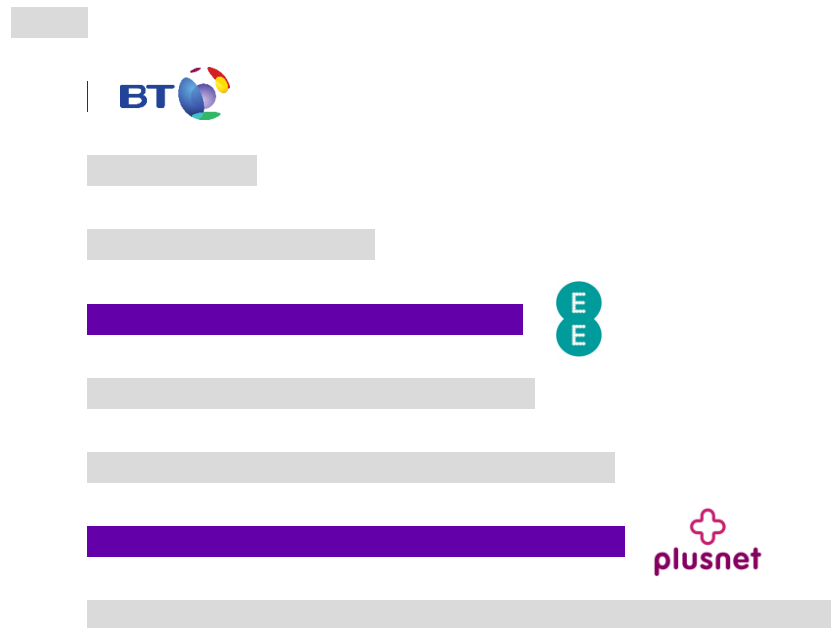
11 quarters of successive improvement

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.



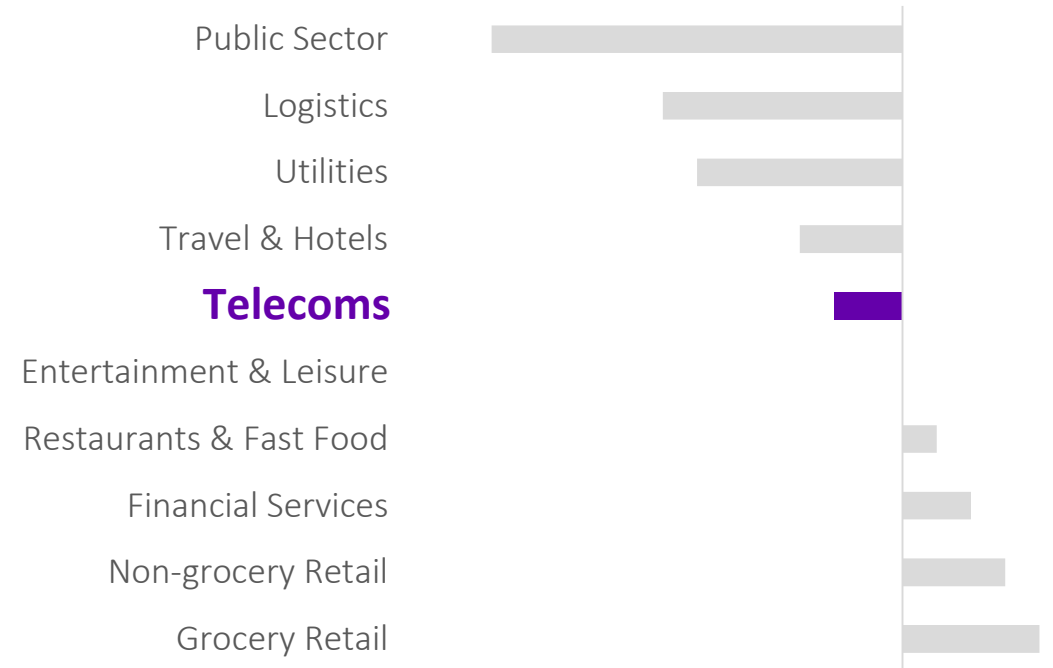
Opportunity to shift the dial on customer experience

UK Consumer Telecoms position



Source: Dynata monthly NPS brand tracker, conducted on behalf of BT

UK sector position vs. UK average

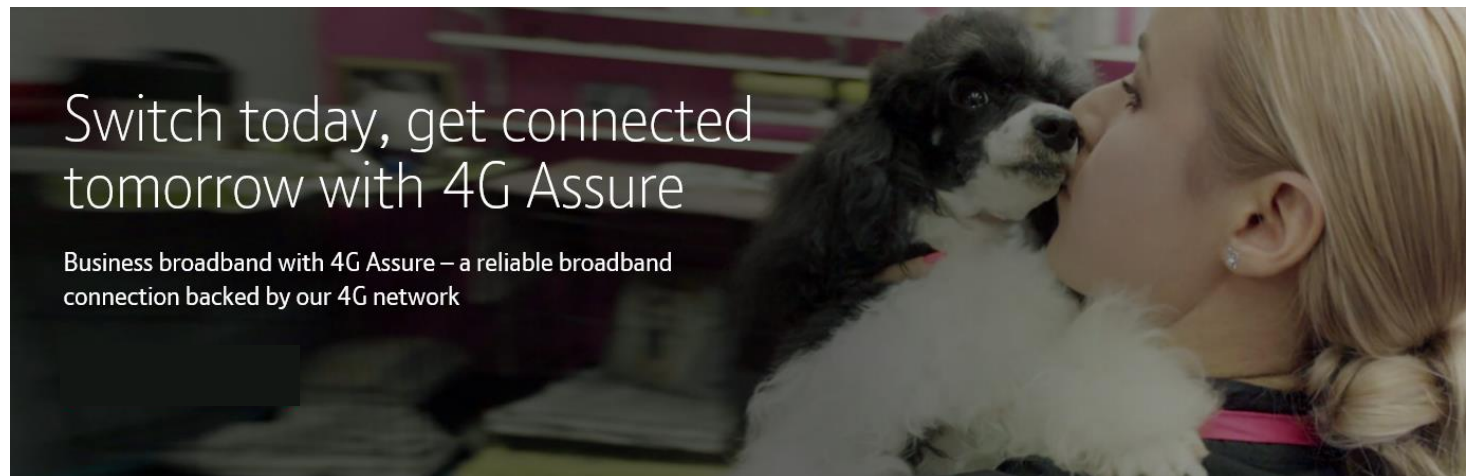


Source: KPMG Nunwood UK Customer Experience Excellence – 2018, Sector comparison'

Investments will focus on superb service, winning propositions and value-for-money

- Invest in service capability:
 - accelerate onshoring
 - training
 - technology - automation, digitisation
- Invest in improved propositions:
 - BT Plus for consumers
 - 4G Assure for business customers
- Improving value for money:
 - CPI¹ pricing for BT connectivity
 - accelerate migration of copper to fibre

¹ Consumer Price Index



Investing to create the best converged network

Network principles

Unified access

Unified access combining all access technologies (4G, 5G, Wi-Fi, FTTC, FTTP, Hybrid) and CPE¹ deliver a robust and reliable experience wherever and whenever customers need it most

Full fibre by default

Full fibre will serve as the backbone for all future home and business applications

5G by default

5G to serve as the primary solution 'on the go' and a fall-back for in-home and in-enterprise

Edge computing

Edge compute to provide low latency and fast access for high-performance user needs

Converged core

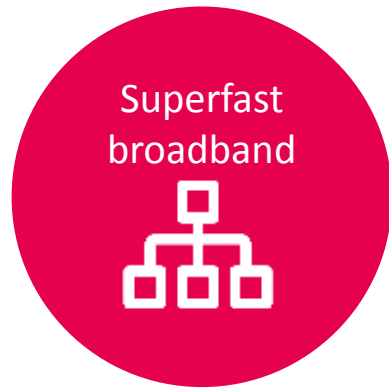
Secure and robust core with high-capacity capabilities such as virtualisation to enable network slicing and latency improvement

¹Customer Premises Equipment

A unique converged network

Today:

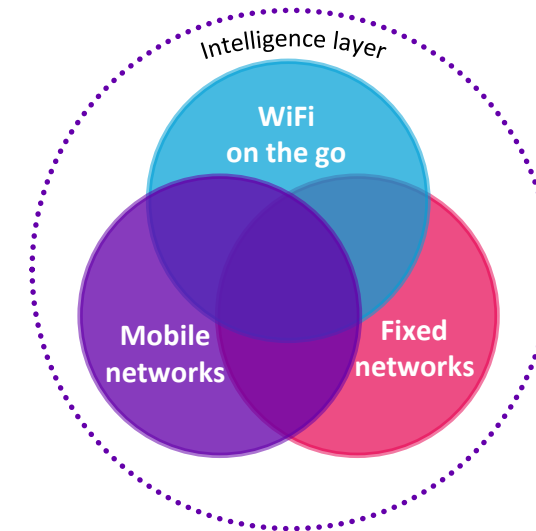
Three different networks



- ✗ Different usage allowances
- ✗ Complex to switch between networks
- ✗ Inconsistent coverage and speed

Tomorrow:

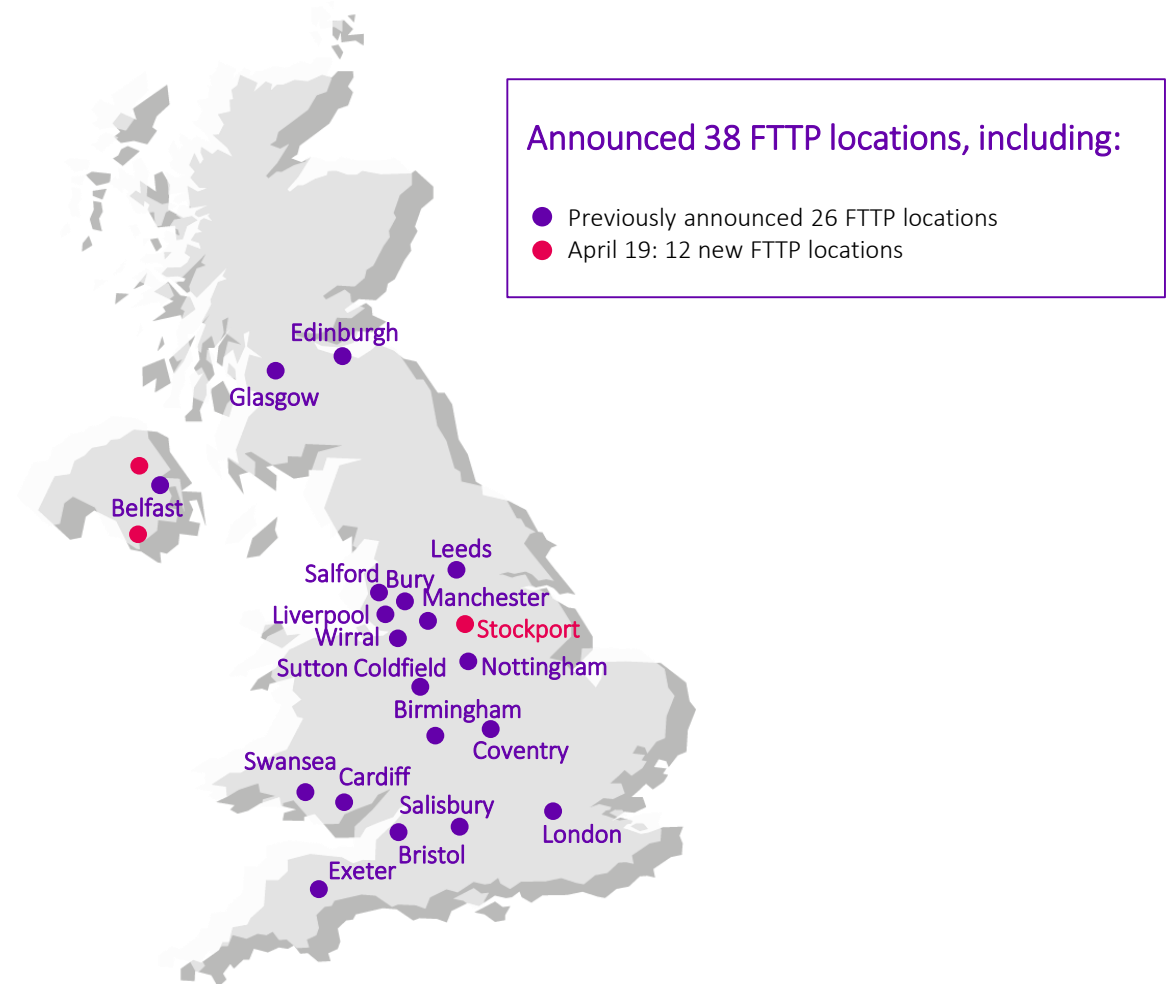
One smart network



- ✓ Always connected
- ✓ Always optimised
- ✓ Always affordable

Creating the UK's best fibre coverage – a long term sustainable asset

- 86.6% superfast¹ coverage
- 3.2m ultrafast premises passed:
 - 1.2m FTTP
 - 2.0m Gfast
- FTTP cities at low end of £300-£400 per premises passed range
- Positive progress with Ofcom and Government
- Increasing FTTP confidence:
 - pass 4m premises by March 2021
 - pass 15m premises by mid-2020s, if conditions right



¹ access to 30+Mbps speeds on an Openreach network

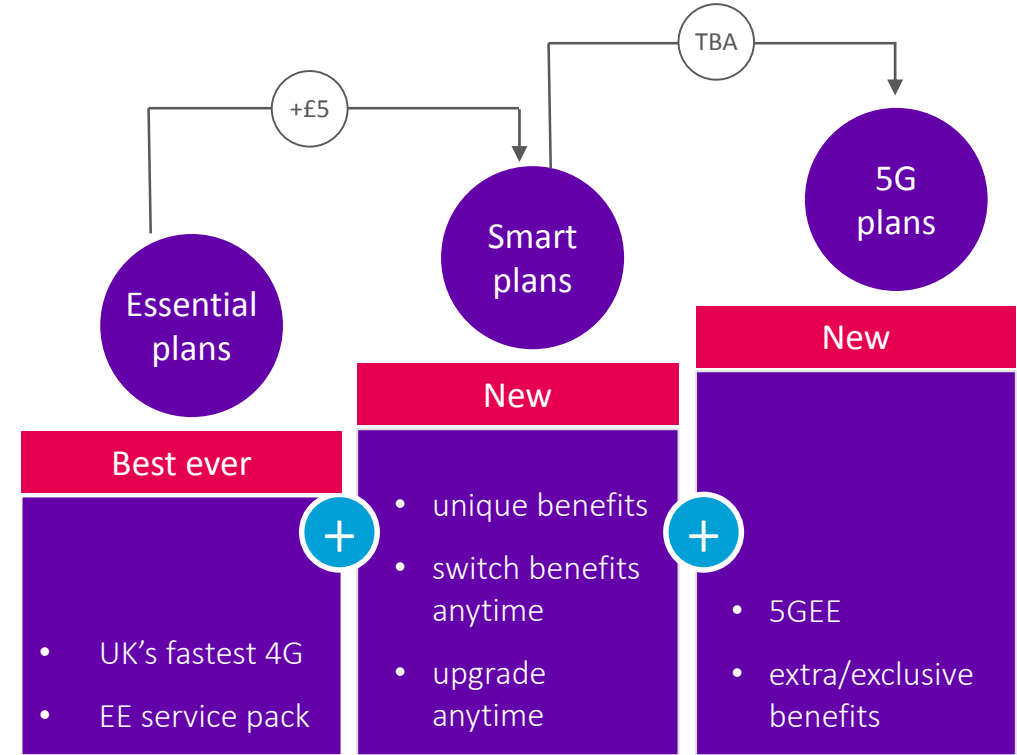
Creating the UK's best 5G coverage, built on the UK's best 4G network

- Best mobile network:
 - Rootmetrics – five consecutive years

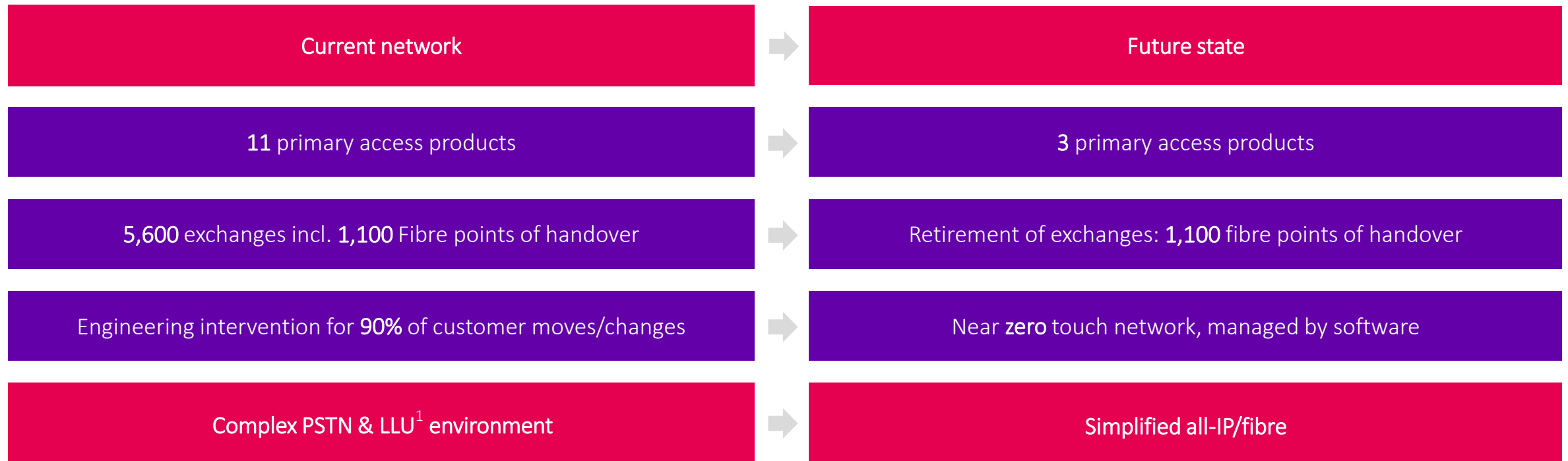
- Broadest 4G coverage

- Imminent launch of 5G:

- 16 cities; 1,500 sites 2019
- partnerships with leading handset manufacturers



All-IP/fibre delivers efficiency and service gains



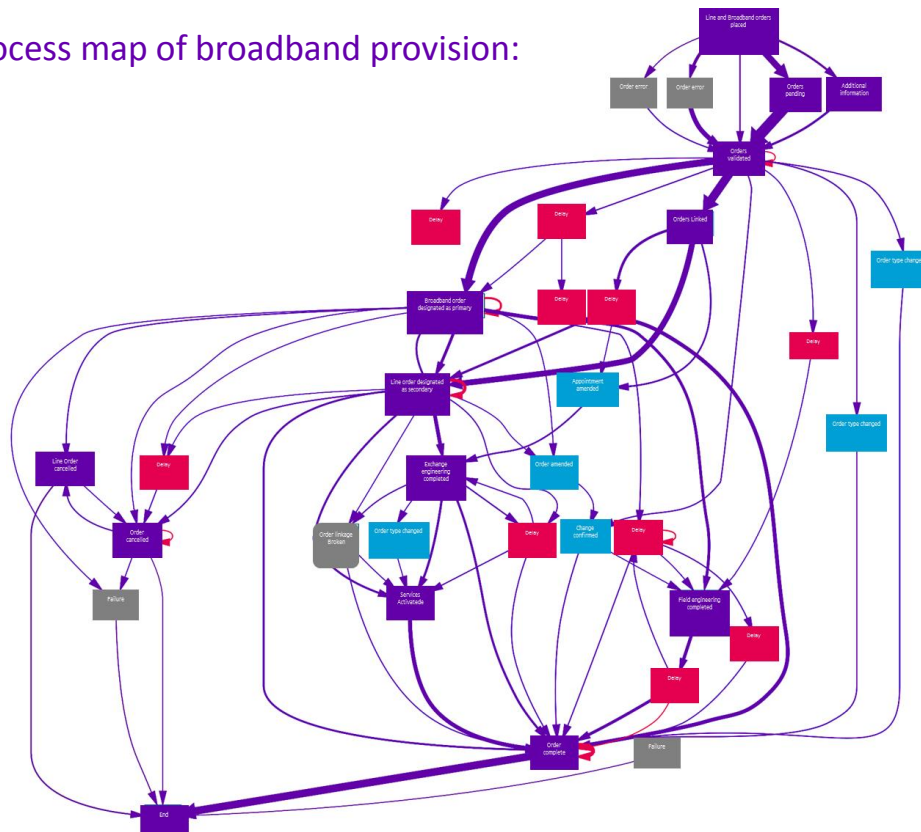
¹Local Loop Unbundling

BT needs to radically transform processes end-to-end to deliver significant benefits

BT's end-to-end processes are inefficient

Transforming our processes will deliver significant benefits

Process map of broadband provision:



Improved customer experience

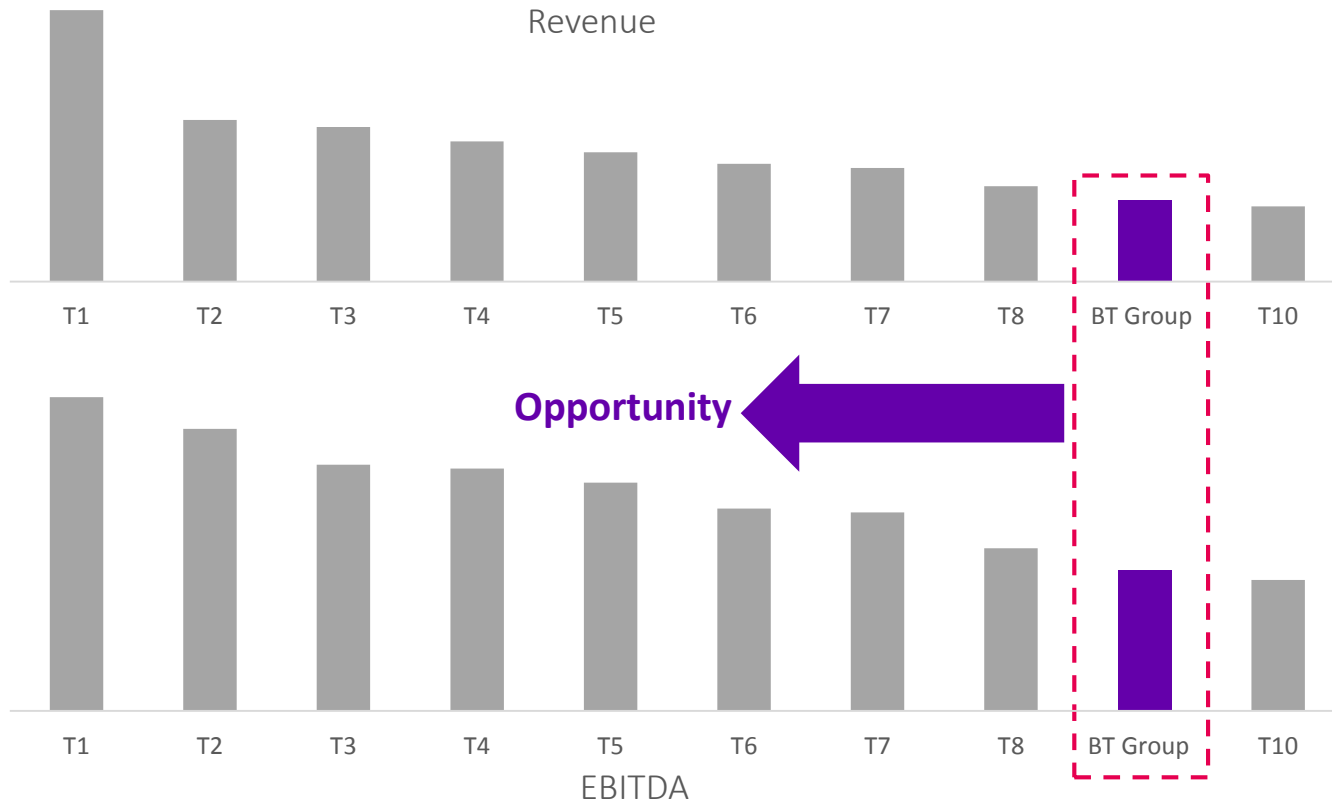
Efficiency savings

Incremental revenue

Better employee engagement

We have a great opportunity for BT to improve productivity and efficiency

2017/18 - Revenue and EBITDA per average number of employees



- We are inefficient vs. European peers
- Current transformation focused on organisational structure and procurement
- Majority of benefits offset by regulation, inflation and legacy current declines, as expected
- Next phase to focus on process and systems simplification to drive productivity

Please note: Local currency has been converted to GBP using OECD GDP PPP

Source: relevant Telcos

Tx = European Telco

2019/20 financial outlook

Actions to improve our competitive position:

1. Introducing new customer propositions
2. Delivering a fair, predictable and competitive pricing
3. Accelerating migration of copper ADSL to superfast
4. Delivering a step change in customer experience investment
5. Ramping up FTTP to 4m by March 2021
6. Accelerating 5G coverage

Adjusted revenue¹	down c.2%
Adjusted EBITDA¹	£7.2bn-7.3bn
Capital expenditure (excluding BDUK clawback)	£3.7bn-3.9bn
Normalised free cash flow²	£1.9bn-2.1bn
Dividend per share	flat

¹ before specific items

² before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

Conclusions

- Solid operating and financial performance
- Strong market position
- Challenging market conditions
- Making good progress but will require increased investment
- Increased investment will:
 - improve customer propositions and competitiveness
 - create the best converged network
 - accelerate business transformation
- Drive sustainable growth in value

Need to be
bolder,
smarter
and
faster
to future-proof BT

