



BT Group plc Q3 2019/20 trading update

30 January 2020

Forward-looking statements caution

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: market disruptions caused by technological change and/or intensifying competition from established players or new market entrants; unfavourable changes to our business where Ofcom raises competition concerns around market power; unfavourable regulatory changes; disruption to our business caused by an uncertain or adversarial political environment; geopolitical risks; adverse developments in respect of our defined benefit pension schemes; adverse changes in economic conditions in the markets served by BT, including interest rate risk, foreign exchange risk, credit risk, liquidity risk and tax risk; financial controls that may not prevent or detect fraud, financial misstatement or other financial loss; security breaches relating to our customers' and employees' data or breaches of data privacy laws; failures in the protection of the health, safety and wellbeing of our people or members of the public or breaches of health and safety law and regulations; controls and procedures that could fail to detect unethical or inappropriate behaviour by our people or associates; customer experiences that are not brand enhancing nor drive sustainable profitable revenue growth; failure to deliver, and other operational failures, with regard to our complex and high-value national and multinational customer contracts; changes to our customers' needs or businesses that adversely affect our ability meet contractual commitments or realise expected revenues, profitability or cash flow; termination of customer contracts; natural perils, network and system faults or malicious acts that could cause disruptions or otherwise damage our network; supply chain failure, software changes, equipment faults, fire, flood, infrastructure outages or sabotage that could interrupt our services; attacks on our infrastructure and assets by people inside BT or by external sources like hacktivists, criminals, terrorists or nation states; disruptions to the integrity and continuity of our supply chain (including the impact of the guidance issued by the National Cyber Security Centre as part of its Telecoms Supply Chain Review in relation to certain vendors (including Huawei), and any associated future legislation); insufficient engagement from our people; a disorderly exit from the Brexit transition period; and risks relating to our BT transformation plan.

Philip Jansen
Chief Executive

Building a better BT for the future

We are continuing to improve our competitive position and driving further improvements in efficiency and productivity

Q3 results slightly below our expectations but on track to meet our outlook for the full year

Ofcom's WFTMR¹ consultation is an important step forward to promote investment in the UK's digital infrastructure

¹ Wholesale Fixed Telecoms Market Review – published 8 January 2020

Q3 – positive progress against strategic pillars

Differentiated Customer Experience

- 14th consecutive quarter of NPS¹ improvement
- Ofcom broadband complaints data for BT below the industry average – for the second consecutive quarter
- Launched Halo, the UK's ultimate converged plan
- Dual branding of our retail stores
- Completed the on-shoring of sales and service on the BT brand, one year ahead of schedule
- Openreach:
 - copper fault volumes c.6% lower than last year
 - missed fault appointments <2% year-to-date

Simplified, Lean & Agile Business

- Phase 1 transformation programme on track:
 - gross benefit of £1.5bn 'in year 3' savings by March 2021
- Work on the next phase underway, focusing on:
 - system, process and product simplification
 - IT a key underpinning enabler
 - moving into execution phase of a multi-year evolution of our IT estate
- Our Better Workplace Programme will consolidate our UK property footprint:
 - from >300 to c.30 locations
 - modern, future-fit buildings
 - commenced consolidation and closure programme - to accelerate in 2020 and into 2021










Best Converged Network

- Important clarification on the use of certain vendors in 5G and full fibre networks:
 - estimated impact of around £500m over next 5 years
- Continued to expand our 5G network:
 - present in over 50 locations
 - network performance ahead of the competition
 - aim to maintain 4G and 5G leadership
- Mobile – we are on board with the Government's Shared Rural Network:
 - important for upcoming 5G spectrum auction rules
- FTTP² roll-out to c.26,000 premises per week:
 - on track to pass 4m premises by end March 2021
 - 465,000 connections on the FTTP network

¹ Net Promoter Score

² Fibre-to-the-Premises

Taken significant steps towards our ambition to deliver FTTP across the UK

| Enabler | Current position | BT view |
|---------------------------------------|--|---|
| Indexation of legacy services | CPI ¹ indexation of legacy services in competitive and prospectively competitive areas |  |
| Premium for FTTP | Premium of £1.50 to £1.85 per month for the 40/10 Mbps FTTP anchor product with pricing flexibility above the anchor product |  |
| Switchover | Legacy copper stop-sell at 75% ultrafast coverage by exchange area. Further two years to withdraw legacy copper services |  |
| Geographic pricing flexibility | Only allowed on case-by-case basis. Commercial deals subject to Ofcom approval |  |
| Fair Bet | Commitment to the principle but no firm commitment to a period of minimum forbearance or guidance on an allowable return |  |
| Area 3 | Ofcom prepared to extend the enablers to costliest final 30% of the UK, subject to an Openreach committed build |  |
| Barrier busting | Welcome changes to wayleaves, building access and mandating FTTP to new premises |  |
| Cumulo business rates | Requested commitment to exempt FTTP from business rates |  |
| Long-term contracts | Constrained ability to sign long-term price-volume contracts, crucial to underpin investment |  |

¹ Consumer Price Index

Q3 financial highlights – 2019/20 outlook maintained

| | Q3 2019/20 (IFRS 16) | Q3 2018/19 (IFRS 16 pro forma) | Change |
|--|-------------------------|-----------------------------------|--------|
| Revenue¹ | £5,779m | £5,982m | (3)% |
| EBITDA¹ | £1,977m | £2,062m | (4)% |
| Reported capex | £995m | £977m | 2% |
| Normalised free cash flow² | £396m | £763m | (48)% |

¹ Before specific items

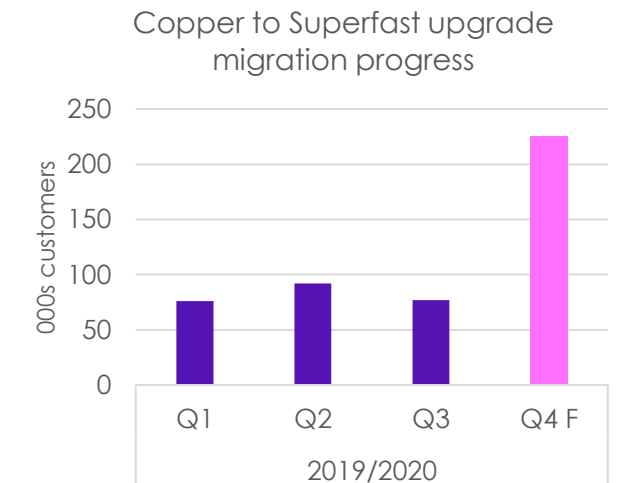
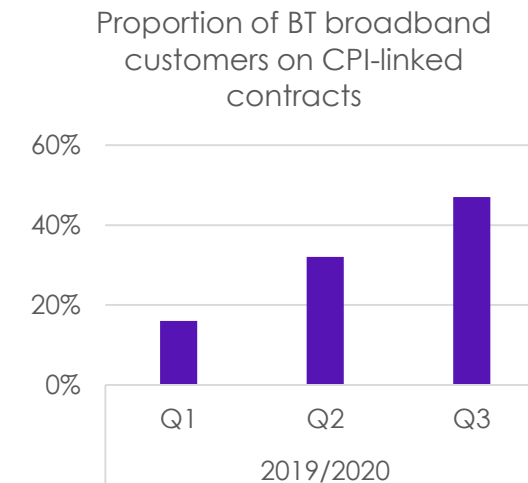
² Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items

Consumer – solid quarter, market repositioning beginning to step up

- Revenue down 2% (down 1% excluding regulation):
 - headwinds from regulation, decline in fixed voice base
 - partly offset by increased equipment sales
- EBITDA down 4% (up 1% excluding regulation):
 - driven by revenue decline, increased spectrum licence fees, and investment in customer experience
- Fixed churn down to 1.3%, mobile churn flat at 1.3%
- BT Sport - exclusive home of all top UEFA club football until 2024
- Enhancing customer experience:
 - Ofcom broadband complaints data for the BT brand below the industry average, for the second consecutive quarter
 - all Consumer sales/service calls now answered in the UK and Ireland
- Convergence momentum continues with Halo
- c.500 stores now dual-branded

| | Q3 2019/20 | Q3 2018/19 | Change |
|---------|------------|------------|--------|
| Revenue | £2,701m | £2,757m | (2)% |
| EBITDA | £620m | £646m | (4)% |

Market repositioning steps up into Q4

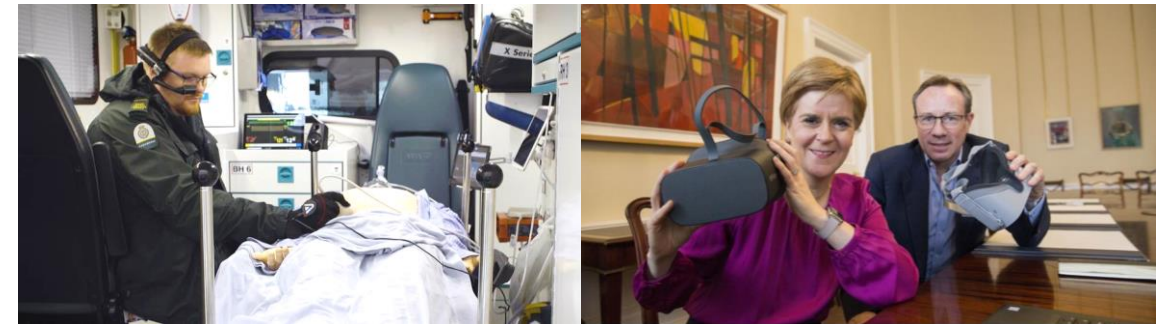


Enterprise – further voice declines, focusing on costs and innovation

- Revenue down 6% (down 2% adjusting for disposals) due to:
 - continued declines in traditional voice and sale of our Fleet Solutions business
 - partly offset by growth in mobile, IP services and networking
- EBITDA down 4% (down 2% adjusting for disposals):
 - reflects revenue decline, partly offset by lower operating costs
- c.60% of SME broadband sales now being sold on an enhanced 4G Assure plan
- 5G sales ahead of expectations
- Order intakes: retail down 13%; wholesale down 3%:
 - rolling 12-month order intakes: retail up 4%; wholesale up 11%

| | Q3 2019/20 | Q3 2018/19 | Change |
|---------|---------------|---------------|--------|
| Revenue | £1,495m | £1,583m | (6)% |
| EBITDA | £490m | £513m | (4)% |

Leading in enterprise innovation with 5G

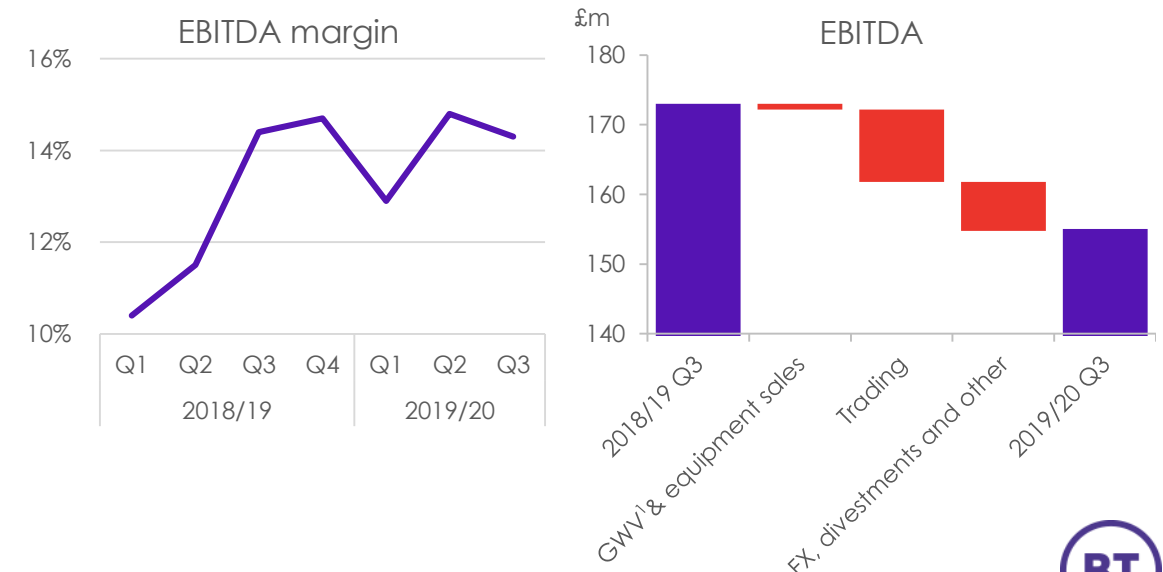


Global – non-core divestment and large renewals in-line with strategy

- Revenue down 10% due to:
 - legacy portfolio declines, non-core divestments and decision to reduce low margin business
- EBITDA down 10% driven by:
 - lower revenue and positive one-offs last year
 - partially offset by ongoing transformation
- Order intake up 37%:
 - benefitting from large renewals in the quarter, reflecting high renewal rate
 - rolling 12-month order book up 21% to £4bn, highest level for around two and a half years
- Agreed sale of domestic operations in Spain

| | Q3 2019/20 | Q3 2018/19 | Change |
|---------|------------|------------|--------|
| Revenue | £1,084m | £1,202m | (10)% |
| EBITDA | £155m | £173m | (10)% |

Global's Q3 EBITDA margin and YoY movements



¹ Global Wholesale Voice

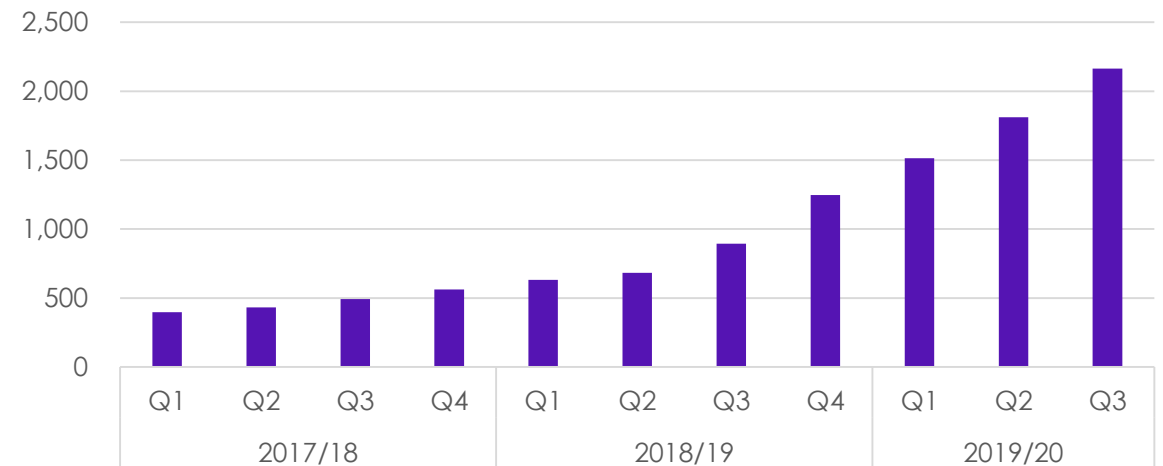


Openreach – FTTP build accelerating towards 4m premises target

- Revenue up 2% driven by higher fibre and Ethernet volumes:
 - partly offset by price reductions and increased Auto-Compensation
- EBITDA down 1% due to higher operating costs:
 - mainly higher business rates, and higher salary costs
- Increased pace of the FTTP roll-out:
 - adding c.26,000 premises per week
 - passed 2.2m premises with FTTP, still at the lower end of the £300-400 per premises passed range
 - extend rural FTTP build to 250,000 premises
 - continued talks with CPs to encourage FTTP take-up
- In Scotland, awarded two of the three R100 contracts to provide superfast speeds across the country, and we are the preferred bidder in the third area

| | Q3 2019/20 | Q3 2018/19 | Change |
|---------|------------|------------|--------|
| Revenue | £1,281m | £1,256m | 2% |
| EBITDA | £722m | £731m | (1)% |

On target to pass 4m premises by end of March 2021



■ FTTP deployment ('000 premises passed)

Summary

- Q3 results slightly below our expectations but on track to meet our outlook for the full year
- Focused on delivering market-leading converged connectivity and services at fair prices to ensure customer loyalty
- Being bolder, smarter, and faster to remain successful and to create a better BT for the future:
 - value-for-money, customer-led approach
 - modernisation plans
 - strong ambition to rollout FTTP and 5G across the UK
- On track to hit our target of building FTTP to 4m premises by March 2021:
 - Ofcom's WFTMR consultation is an important step forward to promote investment in the UK's digital infrastructure
 - we will continue discussions with Government, Ofcom and industry to extend our role in delivering FTTP to the whole of the UK and increase our FTTP target to 15m premises, and potentially beyond

