BT Group plc
Q1 2016/17 results
28 July 2016

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Gavin Patterson

Chief Executive

Q1 overview

- Good start to the year
  - revenue growth and strong cash flow
  - EE integration progressing well

- Strong mobile performance
  - good postpaid net additions; record low EE postpaid churn

- A record quarter for BT Sport viewing
  - now available to EE's postpaid mobile customers

- Investing in the UK's digital future
  - well over 25m premises now passed with fibre
  - investments in superfast, ultrafast and 4G

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Investing in the UK's digital future

£6bn Openreach and EE investment plans
- around £6bn capex over next 3 years

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

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

95% 4G geographic coverage by end-2020
- from just over two-thirds today

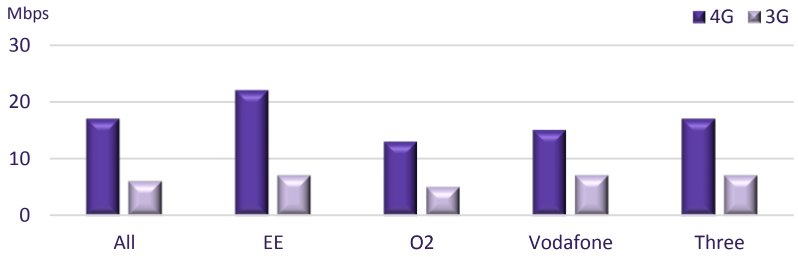
300k Emergency Services Network
- we'll be supporting 300,000 emergency services personnel

Moving from superfast to ultrafast

Superfast 90% → 95%

Ultrafast → 12m

Average download speed 4G v 3G, by operator



Source: Ofcom mobile broadband measurements, fieldwork November and December 2015

Ofcom

BT

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Openreach to be more independent and transparent

Better service

Broader coverage

Faster speeds

- More independence: a new Openreach board
- More autonomy over investments and decision making
- More transparency: a new way of working with service providers
- More accountability with a new governance regime

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Focused on improving customer experience

- Doing more things right first time
  - ahead on all 60 Ofcom minimum service levels in Q1
  - 84% of faults repaired in two working days, up from 68% at the beginning of 2014
  - missed appointments down >1/3 from Q4; on track to halve by end of 2016/17
  - Consumer has moved its entire BT base onto Care level 2, fixing faults 24 hours faster

- Improving our network
  - hiring 1,000 Openreach engineers this year
  - multi-skilling engineers to fix a wider range of issues
  - focus on quality engineering and proactive maintenance

- Making it easier for customers to contact us
  - 100% of EE brand postpaid customer service calls now handled in UK & Ireland
  - on track to answer 90% of Consumer customer service calls in the UK by end of 2016/17
  - improving digital capability through the My BT app and My EE digital channels

We want to deliver great customer experience

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BT

Tony Chanmugam

Former Group Finance Director

Q1 results – a good start to the year

		Underlying pro forma YoY[2]	YoY[3]
Revenue[1]	£5,775m	+0.4%	+35%
EBITDA[1]	£1,818m	(2)%	+25%
EPS[1]	6.6p	-	(1)%
Normalised free cash flow[4]	£448m	-	up £342m
Net debt	£9,579m	-	up £3,760m

[1] before specific items
[2] excludes specific items, foreign exchange movements, disposals, and transit. Calculated as though EE had been part of the group from 1 April 2015
[3] including EE from acquisition on 29 January 2016
[4] before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

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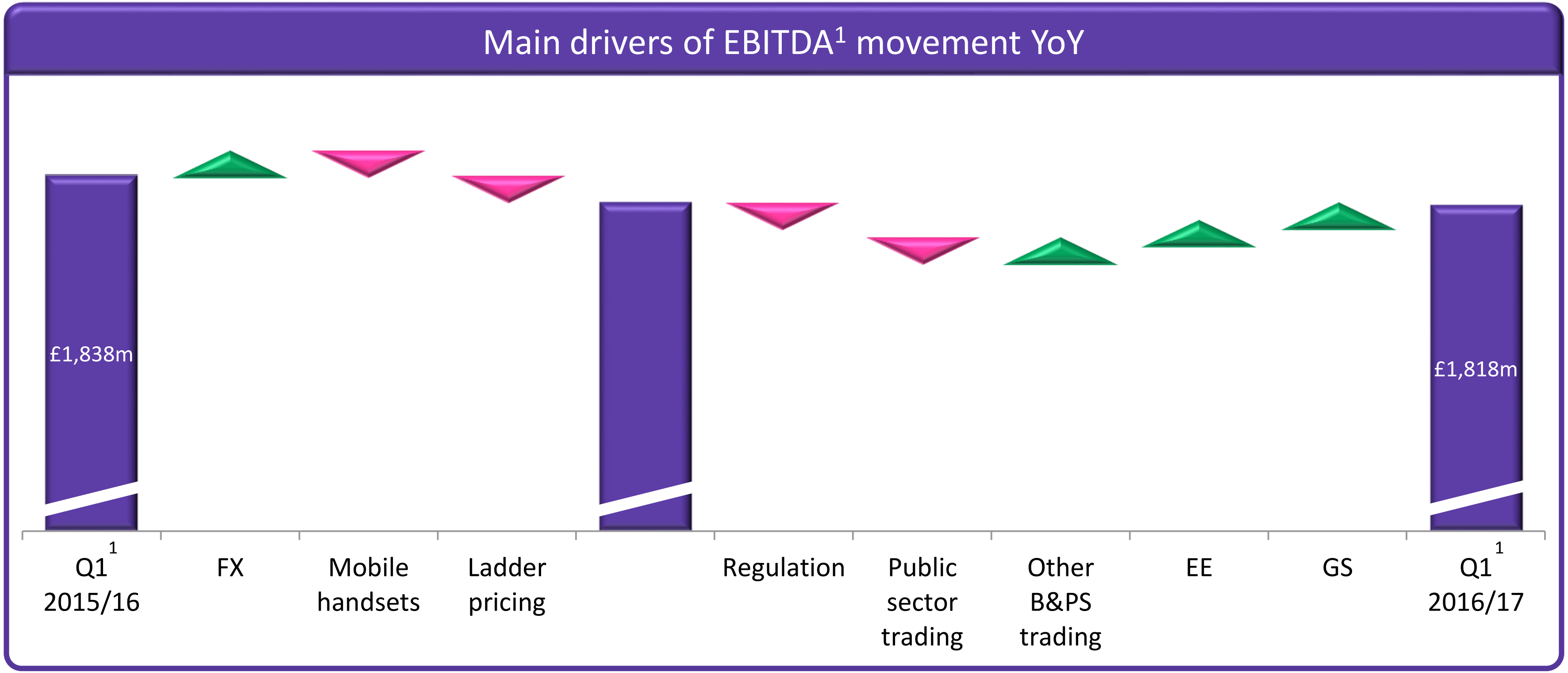
EBITDA broadly level excl. FX, handsets and ladder pricing



[1] excludes specific items. Calculated as though EE had been part of the group from 1 April 2015

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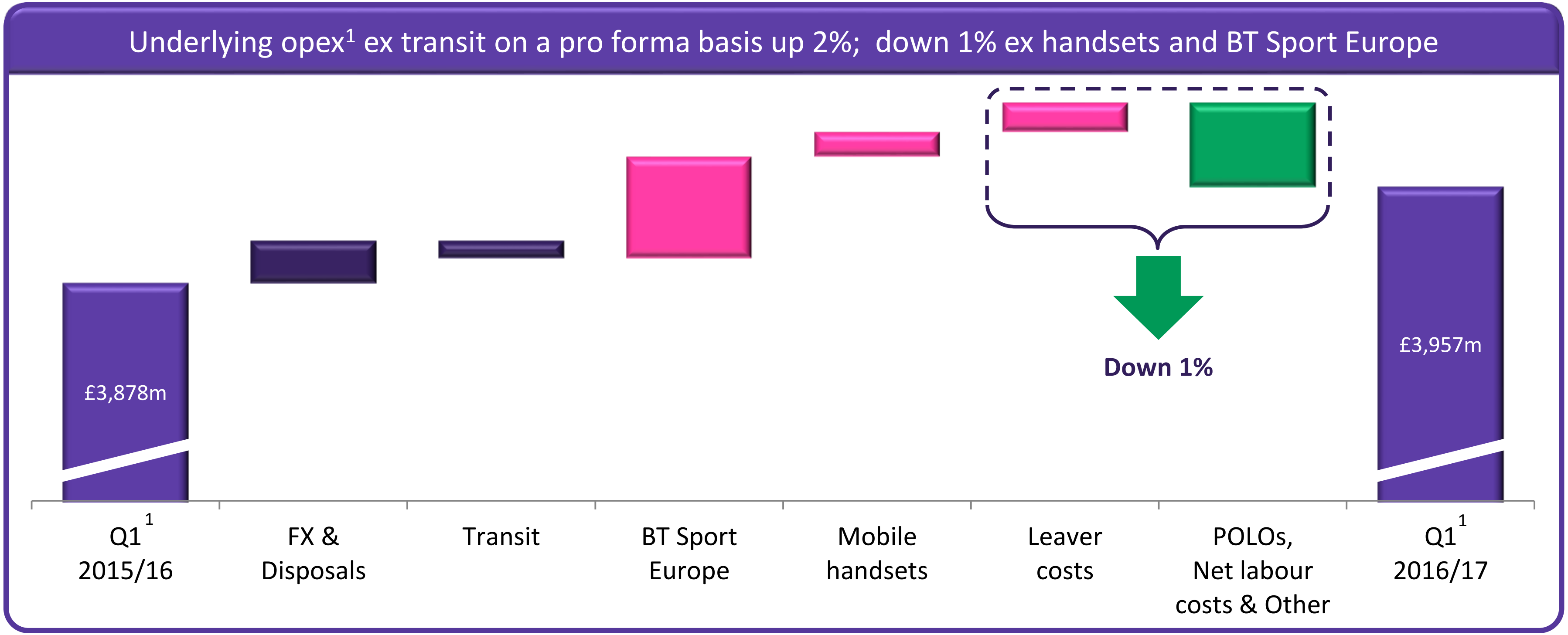
Q1 operating costs YoY



[1] before specific items and depreciation and amortisation and is calculated as though EE had been part of the group from 1 April 2015

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Continuing cost transformation

- IT development
  - piloting software to review IT code, to improve the productivity of coders
  - improve effectiveness of software development and reduce rework
  - expect annualised saving of £16m

- Global Services - expanding cost transformation worldwide
  - regionalise operating model for subscale countries, £10m-£15m opportunity
  - end-to-end contract resource review, to improve contract profitability, £20m opportunity

- Contact centres
  - c.1,100 back-office roles insourced to CBS[1] in 2015/16, plans for a further c.1,400 roles this FY
  - continuing to consolidate our office estate to create more efficient centres
  - expect annualised saving of £70m

Still well over £1bn of gross cost transformation opportunities over next two years

[1] Central Business Services

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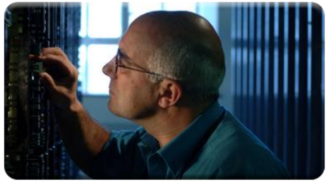
EE integration progressing well

- BT Mobile handsets launched
  - benefiting from economies of scale in handset procurement

- BT Sport for EE postpaid customers
  - rolling £5 a month subscription (free for first six months)



- Insourcing of services previously procured from third parties
  - a range of roles spanning IT, customer services and facilities management

On track to achieve c.£1.6bn NPV revenue synergies and c.£400m pa ‘Year 4’ cost synergies

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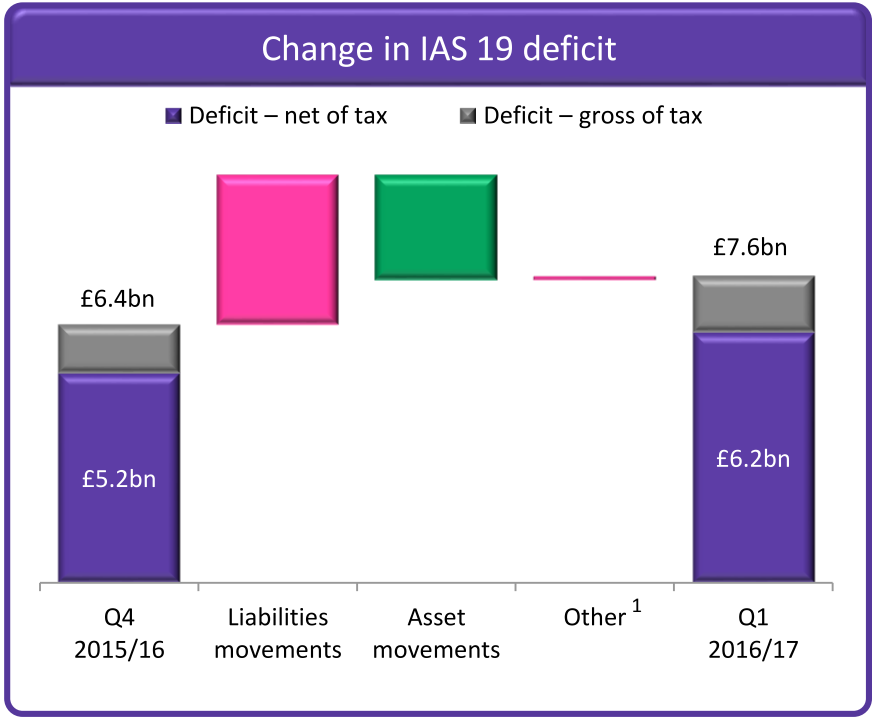
Pension

- IAS19 deficit £6.2bn net of tax at 30 June 2016
  - (Q4 2015/16: £5.2bn)
- Liabilities increased due to record low discount rates
  - real discount rate of negative 0.05%
  - (Q4 2015/16: 0.44%)
- Next funding valuation of BTPS due as at 30 June 2017
- Strengthened covenant
  - improved business performance
  - EE further diversifies cash flows



[1] includes service cost, regular contributions and interest on deficit

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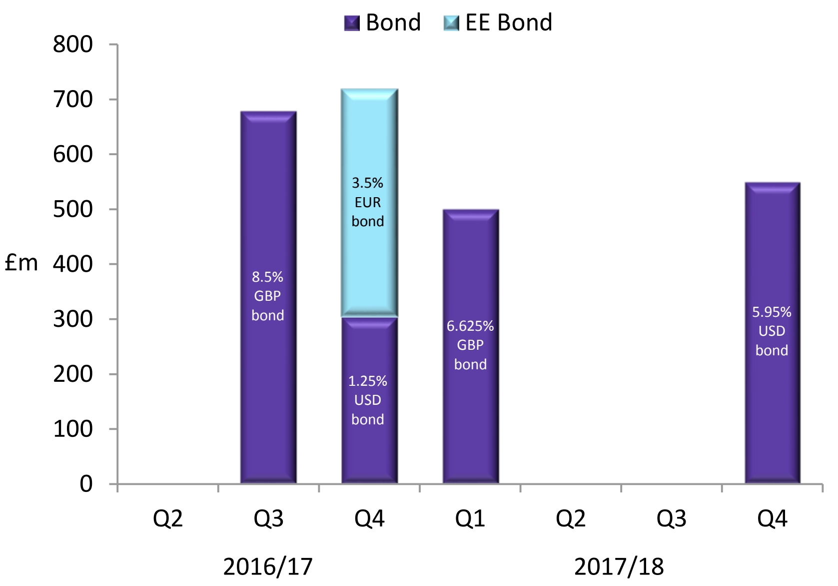
Strong balance sheet with certainty of funding

- BBB+ rating from the ratings agencies
  - Fitch upgraded to BBB+ in February
  - Moody's upgraded to Baa1 in June
  - S&P upgraded to BBB+ in July
- Net debt of £9.6bn at 30 June 2016
  - down £0.3bn since March 2016
- Increased facility from £1.5bn to £2.1bn
  - remains undrawn
  - cancelled EE's £0.4bn facility in July
  - repaid outstanding balance of EE acquisition facility in July
- £0.4bn bond repaid in quarter
  - £2.4bn repayable in next two years
- Cash and investments of £2.9bn

Term debt maturity profile[1] for next two years



[1] labelling reflects the coupon rates, not effective rates

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On track to deliver outlook

	2016/17	2017/18
Underlying revenue[1] ex transit on a pro forma basis	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 disposals. Calculated 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

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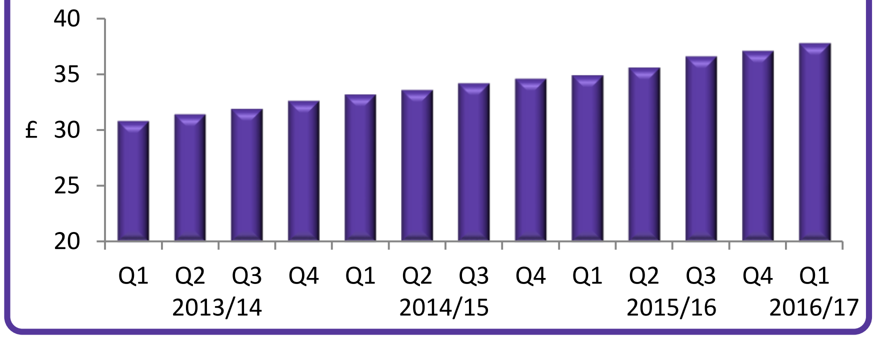
Gavin Patterson
Chief Executive

Consumer – good growth and share of broadband market

- Revenue up 9%
  - broadband and TV up 21%
  - calls and lines up 3%
  - ARPU up 8%
- EBITDA down 7%
  - BT Sport Europe investment impacting YoY
  - BT Mobile handset launch in Q1
- Operating cash flow £298m
  - favourable working capital due to BT Sport Europe rights payment phasing
- Solid operational stats
  - 79% share of broadband net adds[1]
  - 59,000 TV net adds[2]

	Q1 2016/17	YoY change[3]
Revenue	£1,175m	9%
EBITDA	£239m	(7)%

Consumer monthly ARPU



[1] includes EE and business customers
[2] includes EE customers
[3] restated

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Consumer – new launches and record viewing

BT Mobile handsets launched

- Popular phones from the biggest brands
  - including Samsung Galaxy S7 and Apple iPhone 6s
- £5 a month discount for BT Broadband households
- Choice of three simple data plans

BT Smart Hub launched

- The UK's most powerful wi-fi signal[1]
- Faster wi-fi speeds, better coverage
  - two rooms away, wi-fi almost twice as fast as Sky Q Hub

Record viewing for BT Sport

- Audience up 58% this quarter
- >6m viewers of UEFA Champions League final
- Multi-platform digital strategy

[1] versus major broadband providers

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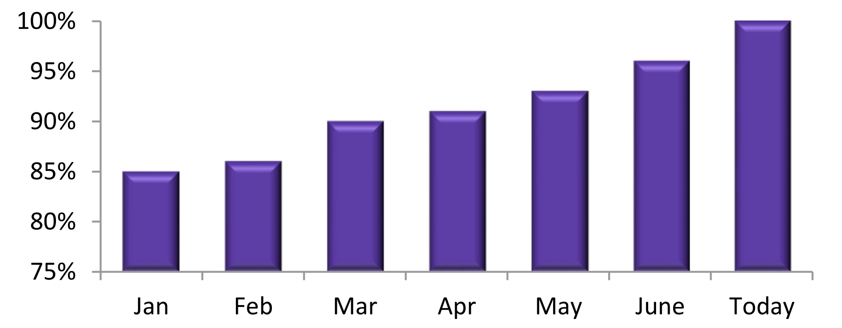
EE – strong financial and KPI performance

- Underlying pro forma[1] revenue down 2%
- Underlying pro forma[1] EBITDA up 11%
- Group-level mobile base 30.3m
  - 244,000 postpaid net adds, almost 50% EE; EE postpaid churn at a record low of 1.0%
  - prepaid base reduced by 291,000
  - 4G base now 16.7m
- Continuing focus on customer service
  - 100% of postpaid customer service calls[2] now handled in UK and Ireland
  - on track to achieve 100% for prepaid and fixed broadband customers by end of 2016
- 4G geographic coverage now more than 2/3
  - 97% 4G population coverage

	Q1 2016/17	YoY change[1] (u/l pro forma)
Revenue	£1,243m	(2)%
EBITDA	£281m	11%

EE customer service calls[2] handled in UK and Ireland



[1] excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015. Revenue also excludes transit
[2] postpaid EE brand mobile customers

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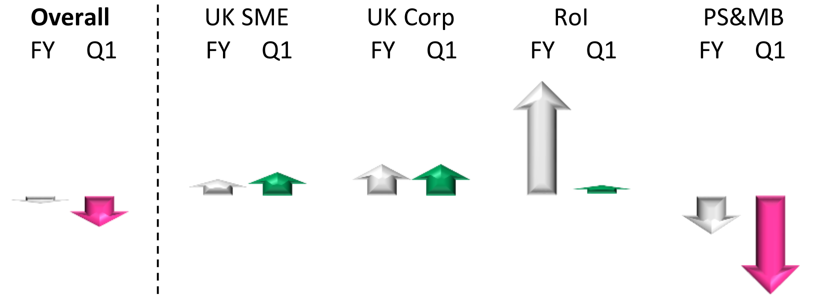
Business and Public Sector – public sector headwinds

- Underlying pro forma[1] revenue down 4%
  - public sector headwinds, including completion of a number of contracts
  - UK SME, UK Corporate, and Republic of Ireland performing well
  - early evidence of revenue synergies
- Underlying pro forma[1] EBITDA down 5%
- Operating cash flow £252m
- Order intake up 11%
  - 12-month rolling down 7%
  - includes a new pan-London public sector procurement framework agreement

	Q1 2016/17	YoY change[1] (u/l pro forma)
Revenue	£1,169m	(4)%
EBITDA	£357m	(5)%

Continued steady revenue[2] performance outside of public sector



[1] excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015. Revenue also excludes transit
[2] chart shows YoY revenue movement. Calculation excludes specific items, foreign exchange movements, transit and disposals. Calculated as though EE had been part of the group from 1 April 2015

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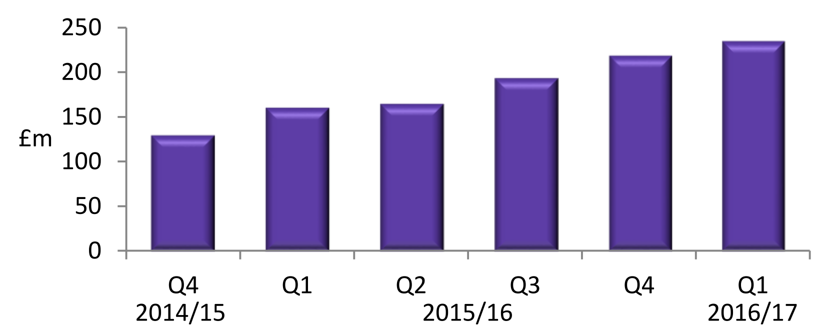
Global Services – strong performance

- Underlying pro forma[1] revenue flat
  - UK up 3%, Europe[2] up 2%, AMEA[3] up 1%,
  - Americas[4] down 7%, major customer insourcing
- Underlying pro forma[1] EBITDA up 7%
- Operating cash outflow £283m
  - reflecting seasonal phasing of working capital
- Enhancements to Cloud of Clouds
  - Zscaler access points added to our global network
- Order intake down 11%
  - 12-month rolling down 5%

	Q1 2016/17	YoY change[1] (u/l pro forma)
Revenue	£1,250m	flat
EBITDA	£119m	7%

12-month rolling EBITDA less capex



[1] excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015. Revenue also excludes transit
[2] Continental Europe [3] Asia Pacific, the Middle East and Africa [4] United States & Canada and Latin America

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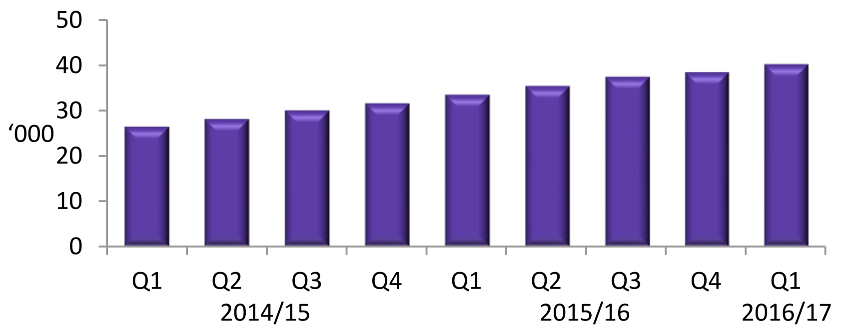
Wholesale and Ventures – markets remain challenging

- Underlying pro forma[1] revenue down 6%
  - down 3% excluding c.£15m ladder pricing in prior year
- Underlying pro forma[1] EBITDA down 14%
  - down 6% excluding ladder pricing in prior year
  - reflects changing revenue mix
    - good growth in Ethernet and broadband
    - decline in higher-margin Partial Private Circuits
- Operating cash flow £134m
- Order intake down 7%
  - includes a six-year deal with Daisy Communications

	Q1 2016/17	YoY change[1] (u/l pro forma)
Revenue	£518m	(6)%
EBITDA	£199m	(14)%

Wholesale Ethernet circuits base



[1] excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015. Revenue also excludes transit

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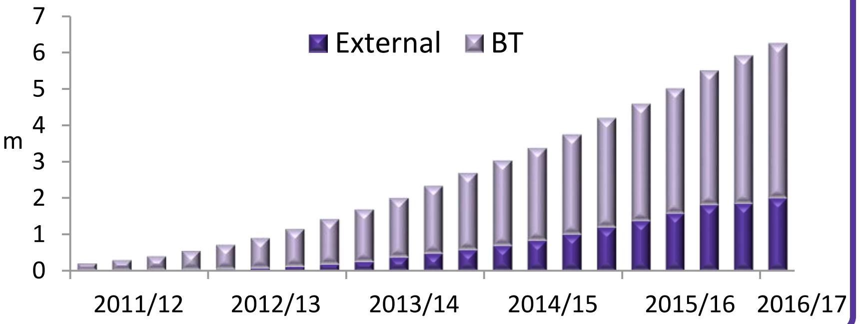
Openreach – investing to deliver better service

- Revenue flat
  - c.£50m impact from regulation
  - offset by 33% growth in fibre broadband revenue
- Operating costs up 1%
  - reflecting focus on service and leaver costs
- EBITDA down 1%
- 59,000 decrease in physical line base
- 333,000 fibre broadband net adds
  - almost 50% of net adds from other providers
  - 6.2m premises connected, 24% of those passed
- Ahead on all 60 of Ofcom's minimum service levels

	Q1 2016/17	YoY change[1]
Revenue	£1,252m	flat
EBITDA	£632m	(1)%

Openreach fibre base



[1] restated

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Q1 summary

- Good start to the year
- EE integration progressing well
- Strong mobile KPIs and good retail broadband market share
- Record BT Sport viewing
- Cost transformation continuing with much more to go for
- Focused on improving customer experience
- Investing in the UK's digital future

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Q&A

Appendix

Income statement

£m	Q1 2016/17	YoY change	Key points
Revenue[1]	5,775	35%	growth mainly as a result of EE acquisition £47m favourable impact from FX £14m reduction in transit revenue
- u/l ex transit pro forma		0.4%	
EBITDA[1]	1,818	25%	
Operating profit[1]	963	17%	depreciation and amortisation up 36%
Profit before tax[1]	802	16%	net finance expense up 17%
EPS[1]	6.6p	(1)%	additional shares issued as part of EE acquisition
Specific items[2]	70	37%	includes integration costs of £28m plus net interest expense on pensions of £52m

[1] before specific items
[2] net charge after tax

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Free cash flow

£m	Q1 2016/17	YoY change	Key points
EBITDA[1]	1,818	369	reflects acquisition of EE
Capex	(711)	(85)	reflects phasing of expenditure; mainly EE
Interest	(188)	(5)	
Tax[2]	(147)	(59)	reflects timing of tax payments in prior year
Working capital & other	(324)	122	
Normalised FCF	448	342	reflects EBITDA and smaller working capital outflow
Cash tax benefit of pension deficit payments	44	(25)	
Specific items	(52)	-	includes restructuring charges of £19m and EE-related payments of £18m
Reported FCF	440	317	

[1] before specific items
[2] before cash tax benefit of pension deficit payments

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