



BT Group plc
Q2 2016/17 results
27 October 2016



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Gavin Patterson
Chief Executive



Q2 overview



- Strong KPI performance
 - postpaid mobile net additions particularly good
- Good Q2 financial performance
 - cash flow benefiting from timing of receipts and payments
- Customer experience is core to our plans
 - significant investment planned in H2
- Further improvements to our network
 - expanding fibre and 4G
- Submission made to Ofcom's Digital Communications Review
 - we'll continue to engage to reach the best outcome for the UK

On track to deliver our full year outlook

Reminder of our purpose, goal and strategy

Our purpose

To use the power of communications to make a better world

Our goal

Growth – to deliver sustainable profitable revenue growth

Our strategy

Broaden and deepen our customer relationships

Deliver great
customer experience

Invest for
growth

Transform
our costs

Differentiated
content, services
and applications

Best network
in the UK

Fully converged
service provider

Market
leadership in all
UK segments

Focus on
multinational
companies
globally

**A healthy
organisation**

Best place to work

Investing in our network - fibre

What we said at our Capital Markets Day in May

95%

Superfast availability by end-2017

- we want to go further

10m

Ultrafast premises by end-2020

- with an ambition to reach 12m

c.£6bn

3-year Openreach and EE capex

- with Openreach gross capex to increase again YoY in 2016/17

Progress made in Q2

• Fibre

- 300k premises passed in Q2, taking base to 26m
- Long Reach VDSL – initial trials show 13Mbps uplift in average download speed
- free FTTP for new sites of 30+ homes¹; reduced from previous threshold of 100+ homes
- 500k ultrafast premises passed by April 2017



Pilot installation:
Street cabinet with
G.fast sidepod²

¹from November 2016; new site developments of 30+ homes, registered with Openreach and contracting with Openreach to build a new infrastructure

²installed for January G.fast pilot at Cherry Hinton, Cambridge

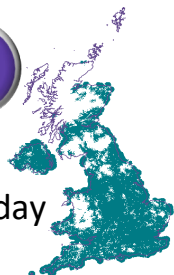
Investing in our network - mobile

What we said at our Capital Markets Day in May



4G geographic coverage by end-2020
– from 60% (as at CMD)

4G geographic coverage acceleration



Today



2020

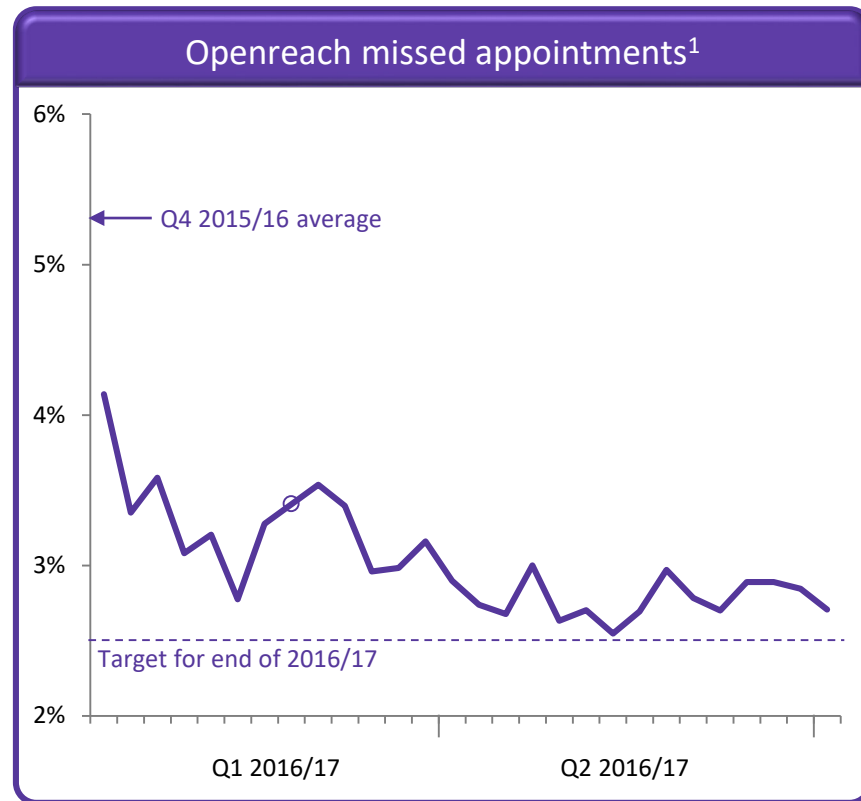
Maps not to scale

Progress made in Q2

- 70% 4G geographic coverage
 - 98% 4G population coverage
 - >36,000 sq. km added this calendar year
- Latest phase of 4G+ network launched
 - 500 sites across the UK by the end of 2017
- Meeting Emergency Services Network milestones

Making progress on customer experience

- Investing in our engineering workforce
 - 950 additional Openreach engineers year to date
 - multi-skill training for new engineers
- Improving handset logistics in EE
 - better short-term replacement handsets
 - one-hour delivery slots
 - confirmation of handset receipt
- Enhancing online self-service in Consumer
 - saving 46,000 calls per week
 - >1m downloads of 'My BT' app



¹weekly data; data point for 20 May adjusted to compensate for one-off system outage



Simon Lowth
Group Finance Director



Q2 results – a good quarter

		Underlying adj. for EE YoY ²	YoY ³
Revenue¹	£6,053m	+1.1%	+38%
EBITDA¹	£1,888m	+0.9%	+31%
EPS¹	7.2p	-	4%
Interim DPS	4.85p	-	10%
Normalised free cash flow⁴	£894m	-	up £325m
Net debt	£9,573m	-	up £3,654m

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

Plenty more to go on cost transformation



- International network efficiency
 - a single database to drive optimisation



- Driving organisational efficiency following our reorganisation
 - Business and Public Sector operating model redesigned



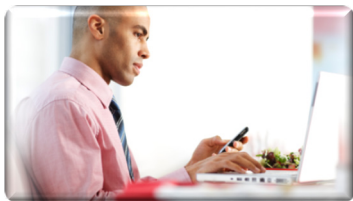
- Technical facility consolidation
 - first wave will reduce number of sites by c.30%

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

EE integration progressing well



- Consumer-EE cross-selling
 - selling BT products in EE stores; trials starting in 20 EE stores
 - BT Sport for EE customers; low hundreds of thousands signed up



- Progress in business mobile
 - net adds more than doubled across Business and Public Sector and Global Services

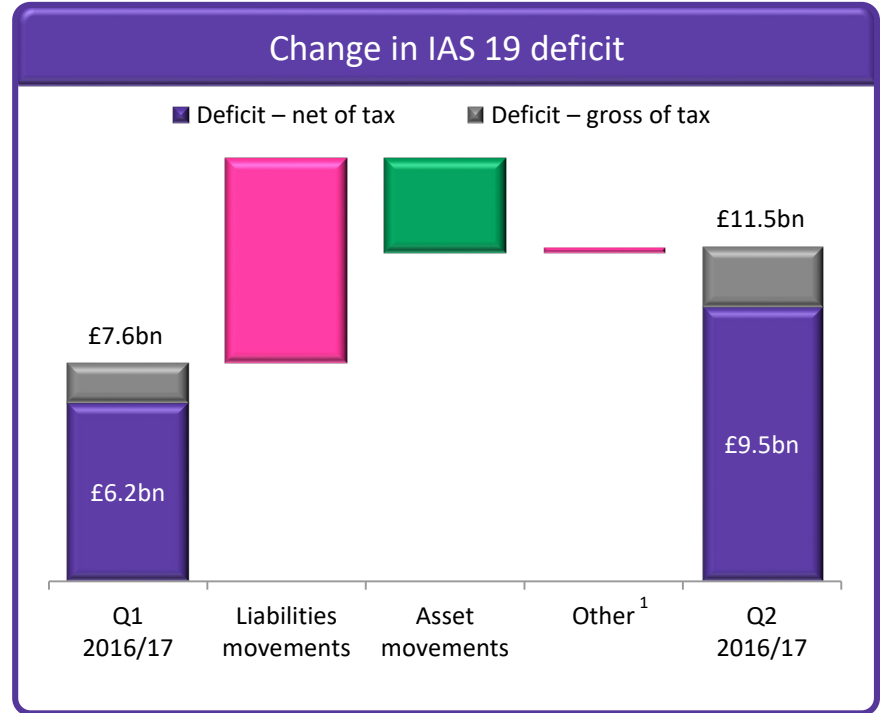


- Rationalising our property estate
 - EE people currently relocating from Paddington to BT offices

c.£100m cost synergies this year & c.£400m in 'Year 4'; c.£1.6bn NPV revenue synergies

Pension

- IAS 19 deficit £9.5bn net of tax at 30 September 2016
 - (Q1 2016/17: £6.2bn)
- Liabilities increased due to record low discount rates
 - real discount rate of negative 0.87%
 - (Q1 2016/17: negative 0.05%)
- Next funding valuation of BTPS due as at 30 June 2017



¹ includes service cost, regular contributions and interest on deficit

On track to deliver outlook

	2016/17	2017/18
Underlying revenue¹ ex transit adjusted for the acquisition of EE	Growth	Growth
EBITDA²	c.£7.9bn	Growth
Normalised free cash flow³	£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



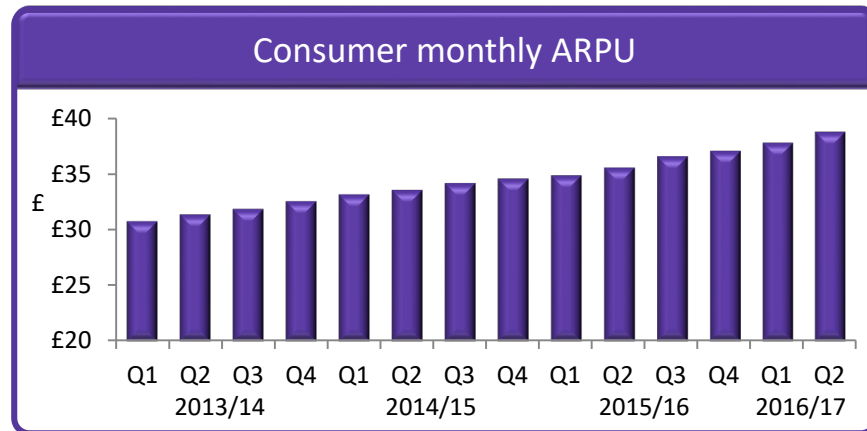
Gavin Patterson
Chief Executive



Consumer – revenue driven by growth in RGUs and ARPU

- Revenue up 11%
 - broadband and TV up 17%
 - ARPU up 9%
- EBITDA up 23%
 - prior year included BT Sport Europe launch
- Operating cash flow £90m
- Good operational stats
 - 65% share of broadband net adds¹
 - 216,000 retail fibre net adds
 - 63,000 TV net adds²
- Focus on customer experience
 - fixing voice faults one day faster
 - adding >1,000 UK customer service roles in H2

	Q2 2016/17	YoY change ³
Revenue	£1,251m	11%
EBITDA	£252m	23%



¹ includes EE and business customers

² includes EE customers

³ compared to restated financials, as issued in June 2016

RGU = Revenue Generating Units

ARPU = Average Revenue Per User

EE – ‘more for more’ pricing on our leading network

- Underlying revenue¹ flat
- Underlying EBITDA¹ down 1%
- Group-level mobile base 30.2m
 - 280,000 postpaid net adds
 - EE postpaid churn stays at a record low of 1.0%
 - prepaid base reduced by 325,000
 - 4G base now 17.6m
- Clean-sweep in RootMetrics awards and overall winner of OpenSignal/Which? report
- ‘More for more’ tariff refresh offering customers increased choice and flexibility
- Focus on customer experience
 - on track to handle 100% of customer service calls² in the UK and Ireland by end of 2016

	Q2 2016/17	YoY change ¹ (underlying)
Revenue	£1,277m	flat
EBITDA	£282m	(1)%

Tariff refresh part of our ‘more for more’ strategy			
	4GEE Essential	4GEE	4GEE Max
Download (Mbps)	Up to 20	Up to 60	Our fastest 4G
Unlimited calls & texts	–	✓	✓
EU calls & texts	–	✓	✓
EU data	–	✓	✓
BT Sport app	–	–	✓

¹excludes 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

²for prepaid and fixed broadband customers. Postpaid already 100%

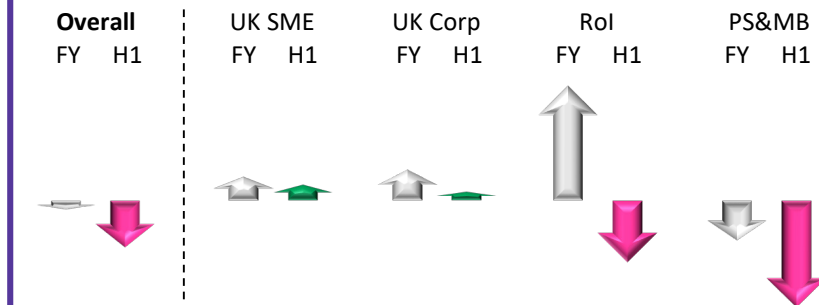
Business and Public Sector – public sector headwinds

- Underlying revenue adj. for EE¹ down 7%
 - public sector challenging, including completion of a number of contracts
 - steady performance from UK SME, UK Corporate, and Republic of Ireland (excl. one-off equipment sales in prior year)
- Postpaid net adds more than double the same period last year
- Underlying EBITDA adj. for EE¹ down 5%
- Operating cash flow £306m
- Order intake down 14%
 - public sector market conditions and a large deal in the prior year
 - high-quality wins



	Q2 2016/17	YoY change ¹ (u/l adj. for EE)
Revenue	£1,177m	(7)%
EBITDA	£387m	(5)%

Continued steady revenue² performance outside of public sector



¹excludes 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

²chart 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

RoI = Republic of Ireland PS&MB = Public Sector and Major Business

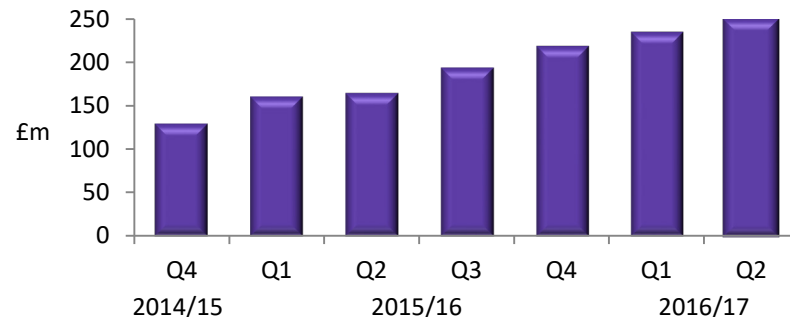
Global Services – delivering differentiation

- Underlying revenue adj. for EE¹ up 3%
 - UK up 9% due to one-off equipment sales and IPX
 - Europe² up 1%, Americas³ down 3%, AMEA⁴ up 5%
- Underlying EBITDA adj. for EE¹ flat
- Operating cash flow £58m
- Continuing our Cloud of Clouds strategy
 - launch of BT Compute for Microsoft Azure
- Leadership recognised by Current Analysis
- Order intake up 10%



	Q2 2016/17	YoY change ¹ (u/l adj. for EE)
Revenue	£1,409m	3%
EBITDA	£132m	flat

12-month rolling EBITDA less capex



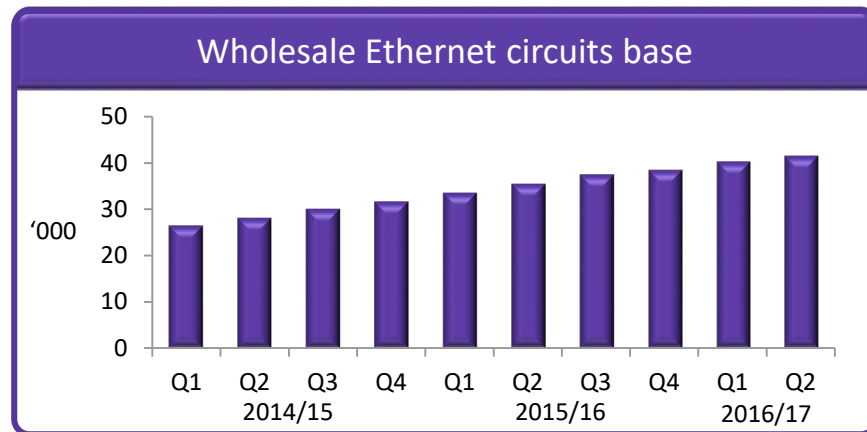
¹excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015. Revenue also excludes transit

²Continental Europe ³United States & Canada and Latin America ⁴Asia Pacific, the Middle East and Africa

Wholesale and Ventures – continued challenging markets

- Underlying revenue adj. for EE¹ down 5%
 - continued decline in Partial Private Circuits and call volumes
 - good growth in fibre broadband and Ethernet
- Underlying EBITDA adj. for EE¹ down 2%
 - Ventures growth partly offsetting Wholesale revenue mix headwinds
- Operating cash flow £155m
- Order intake down 12%
 - up adjusting for a prior year deal with EE

	Q2 2016/17	YoY change ¹ (u/l adj. for EE)
Revenue	£522m	(5)%
EBITDA	£204m	(2)%



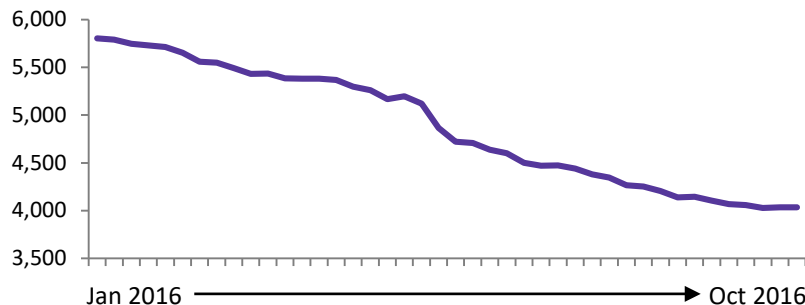
¹excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015. Revenue also excludes transit

Openreach – strong fibre growth

- Revenue flat
 - c.£60m impact from regulation
 - offset by 37% growth in fibre broadband revenue
- EBITDA down 2%
 - operating costs up 4% due to cost of clearing outstanding Ethernet orders
- 440,000 fibre broadband net adds
 - 51% of net adds from other providers
 - 6.7m premises connected, 26% of those passed
- Investing for better service
 - ahead on Ofcom's 60 minimum service levels
 - improving Ethernet circuit delivery throughput
 - online service dashboard launched

	Q2 2016/17	YoY change ¹
Revenue	£1,273m	flat
EBITDA	£630m	(2)%

100-working day outstanding Ethernet orders



¹ compared to restated financials, as issued in June 2016

Q2 summary

- Good Q2 performance
- On track for our full year outlook
- Improving customer experience is core to our plans
- Continuing to invest in our network

Q&A

Appendix

Income statement

£m	Q2 2016/17	YoY change	Key points
Revenue¹	6,053	38%	▶ growth mainly as a result of contribution of EE ▶ £154m favourable impact from FX ▶ £2m reduction in transit revenue
- u/l ex transit adj. for EE		1.1%	
EBITDA¹	1,888	31%	
Operating profit¹	1,019	24%	▶ depreciation and amortisation up 39% due to EE
Profit before tax¹	873	24%	▶ net finance expense up 30% due to EE
EPS¹	7.2p	4%	▶ additional shares issued as part of EE acquisition
Specific items²	(151)	n/m	▶ includes £145m writedown in BT Italia, integration costs of £18m plus net interest expense on pensions of £53m ▶ offset by tax credit of £43m and profit on disposal of a business of £14m

¹ before specific items

² net charge after tax

n/m = not meaningful

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Free cash flow

£m	Q2 2016/17	YoY change	Key points
EBITDA¹	1,888	446	▶ reflects acquisition of EE
Capex	(751)	(156)	▶ reflects acquisition of EE
Interest	(94)	(29)	
Tax ²	(159)	(68)	▶ reflects employee share schemes reducing the charge in the prior year
Working capital & other	10	132	▶ reflects phasing, particularly in Openreach
Normalised FCF	894	325	▶ reflects EBITDA and working capital inflow
Cash tax benefit of pension deficit payments	44	(2)	
Specific items	(62)	(32)	▶ includes EE-related payments of £15m
Reported FCF	876	291	
Pension deficit payment	(8)	(8)	
FCF (post pension deficit payments)	868	283	

¹ before specific items

² before cash tax benefit of pension deficit payments

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Debt and liquidity

- Strong balance sheet with certainty of funding
- Net debt of £9.6bn at 30 September 2016
 - down £6m in Q2; down £272m in H1
- Cash and current investments of £3.0bn
- Undrawn £2.1bn facility renegotiated
 - extended by one year to September 2021
- Repaid outstanding £181m on EE acquisition facility
- Term debt of £1.4bn repayable during remainder of 2016/17
- BBB+ (or equivalent) rating with Fitch, Moody's and S&P

