



BT Group plc

Q4 and full year 2016/17 results

11 May 2017



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Sir Michael Rake
Chairman



Review of the year

Successes

- EE performance and integration going well
 - delivering synergies
- Progress on customer experience
 - with recognition from our customers
- Agreement on Openreach governance
 - removing uncertainty

Challenges

- Findings of our investigation in Italy
 - behaviours discovered have no place at BT
- Challenges in business markets
 - public sector contracts completing, international corporate market conditions
- Historical Openreach practices
 - Deemed Consent investigation

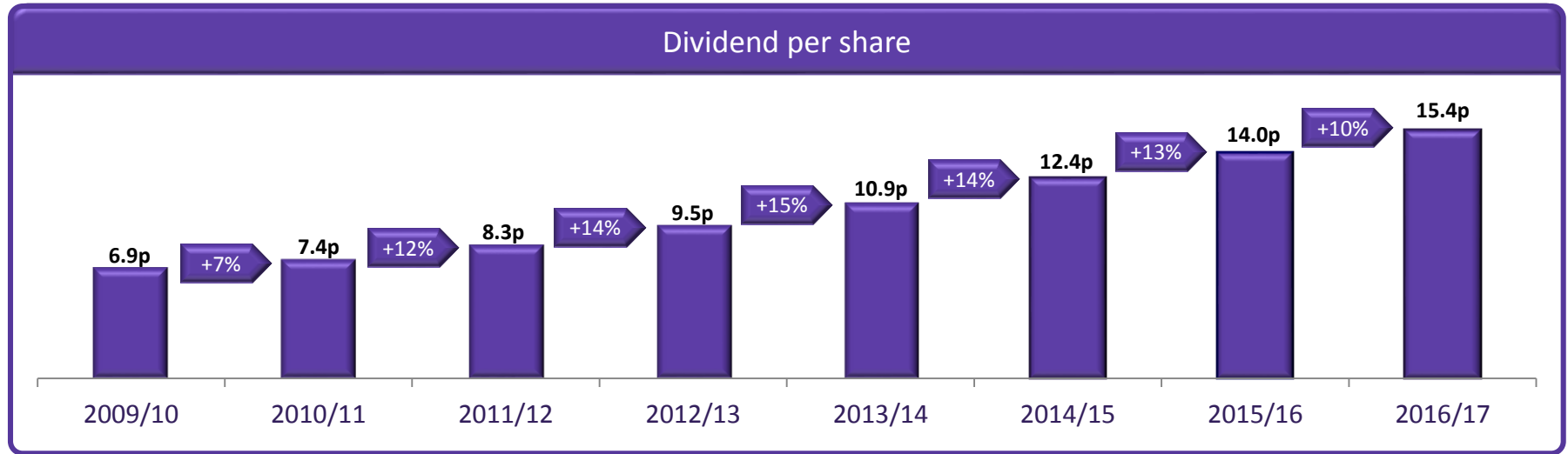
Enduring agreement on future Openreach governance

- Openreach to become a legally separate company within the BT Group
- Openreach CEO to report to the Openreach chairman
- Creation of an Openreach board

Looking ahead to the future

- Underlying UK operations are performing well
- Investing to reinforce strength
- Market and regulatory headwinds exist
- Accelerating cost transformation to offset these
- Well positioned but need more regulatory visibility to confirm long-term outlook

Shareholder distributions



- 10.55p proposed final dividend, up 10%, full year dividend of 15.40p, up 10%
- Dividend policy remains progressive but 2017/18 dividend growth to be lower than the 10% previously anticipated
- Future dividend growth will reflect a number of factors, including underlying medium term earnings growth, level of investment spending and other cash commitments
- c.£100m 2017/18 buyback planned (2016/17: £206m), to counteract dilutive effect of all-employee share option plans



Gavin Patterson
Chief Executive



Q4 overview – important decisions made



- Agreement reached with Ofcom on Openreach governance
 - enduring and comprehensive



- UEFA Champions League and UEFA Europa League renewed
 - TV rights secured to 2021 with improved proposition



- Driving improved customer experience across the group
 - 100% of calls to EE contact centres now answered in UK & Ireland, 86% in Consumer
 - Openreach missed appointments more than halved YoY in Q4



- Significant restructuring planned, accelerating cost transformation
 - reposition Global Services as a more focused digital business
 - simpler operating model, particularly in Group Functions and TSO



- Financials in line with revised outlook
 - working capital benefitting from timing of collections, expected to reverse in 2017/18
- Refined 2017/18 outlook

FY 2016/17 results versus outlook

	Outlook provided in May 2016	Outlook provided in January 2017	FY 2016/17 result
Underlying revenue¹ ex transit adjusted for the acquisition of EE	Growth	Broadly flat	(0.2)%
EBITDA²	c.£7.9bn	c.£7.6bn	£7,645m
Normalised free cash flow³	£3.1bn - £3.2bn	c.£2.5bn	£2,782m

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

²before specific items

³before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

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Consumer – significant investment in customer service

- Q4 revenue up 4%
 - Broadband & TV up 7%, calls & lines up 2%
 - ARPU up 8%; RGUs/customer 1.95, up 3%
- Q4 EBITDA down 18%
 - contact centre onshoring, Premier League rights contract, and BT Mobile handsets
- Q4 operating cash flow up 1%
- Mixed operational stats
 - 29,000 broadband net adds²
 - 211,000 retail fibre net adds²
 - 11,000 TV net adds³; BT Sport strengthened with UEFA rights and BoxNation
- Improving delivery of customer service
 - 1,100 new onshore⁴ service roles added in Q4
 - 86% of inbound calls now answered onshore⁴

	Q4 2016/17	Change ¹	FY 2016/17	Change ¹
Revenue	£1,246m	4%	£4,934m	7%
EBITDA	£261m	(18)%	£1,012m	(4)%

Considerable progress made in customer service

	Q3 2016/17	Q4 2016/17	Today
Average call waiting time	170 seconds	103 seconds	63 seconds
Inbound customer calls handled in UK & Ireland	56%	65%	86%

¹ compared to revised financials reflecting the new group structure effective from 1 April 2016

² includes EE and business customers

ARPU = Average Revenue Per User

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³ includes EE customers

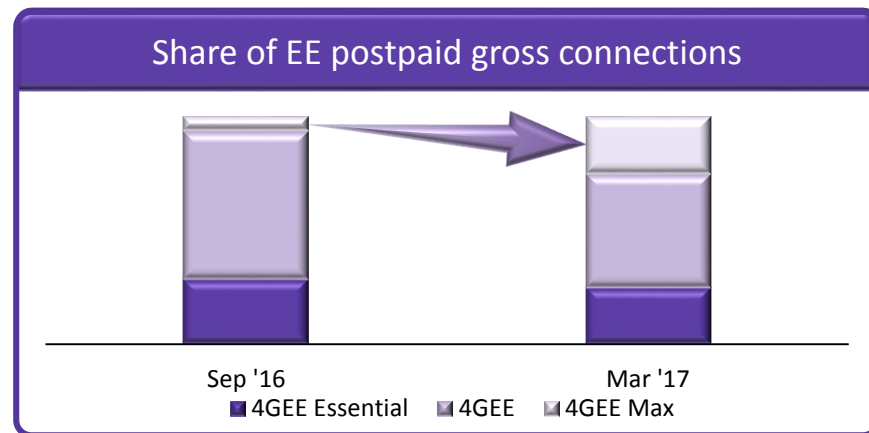
⁴ in UK & Ireland

RGU = Revenue Generating Unit. These include voice lines, broadband, TV and mobile

EE – revenue growth continuing from ‘more-for-more’

- Q4 underlying revenue¹ up 3%
- Q4 underlying EBITDA¹ up 27%
- Q4 operating cash flow £107m
- Group-level mobile base 30.0m
 - 192,000 postpaid net adds
 - postpaid churn 1.1%
 - prepaid base fell by 388,000
 - 4G base now 18.6m
- The UK’s leading mobile network
 - best overall UK mobile network²
 - 4G geographic coverage now 80% (60% Mar ‘16)
 - six-month ESN operational readiness trial started in February – a significant milestone
- Customer experience improvements ongoing
 - focus now on development of digital service channels, with c.9m My EE users

	Q4 2016/17	Change ¹ (u/l)	FY 2016/17	Change ¹ (u/l)
Revenue	£1,259m	3%	£5,090m	1%
EBITDA	£316m	27%	£1,156m	6%



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 ratings from latest RootMetrics survey

Business and Public Sector – peak public sector headwinds

- Q4 underlying revenue¹ adj. for EE down 6%
 - public sector contracts completing, lower associated seasonal uplift than usual for Q4, as flagged at Q3
 - UK SME performing well, helped by mobile and IP lines
- Q4 underlying EBITDA¹ adj. for EE down 19%
 - driven by public sector
- Q4 operating cash flow £433m
- Q4 order intake up 18%
 - mobile and networking orders offsetting public sector decline
 - strengthening order mix



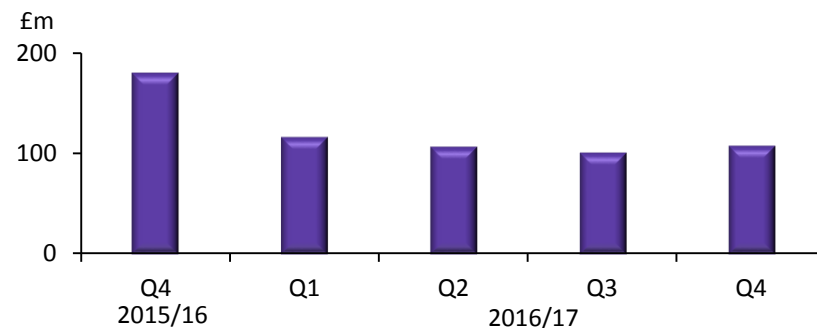
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POLICE**

PRIMARK®



	Q4 2016/17	Change ¹ (u/l adj. for EE)	FY 2016/17	Change ¹ (u/l adj. for EE)
Revenue	£1,222m	(6)%	£4,758m	(6)%
EBITDA	£391m	(19)%	£1,528m	(10)%

Revenue in public sector contracts that are migrating²



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

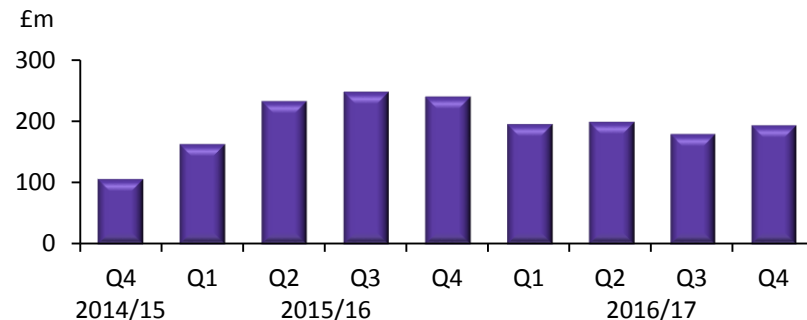
² revenue from the small number of large public sector contracts migrating

Global Services – steady performance other than in Italy

- Q4 underlying revenue¹ adj. for EE down 4%
 - UK up 1%, Americas² down 5%, AMEA³ down 4%
 - Europe⁴ down 9% due to weak trading in Italy
- Q4 underlying EBITDA¹ adj. for EE down 1%
 - benefitted from a c.£25m annual bonus true up
- Q4 operating cash flow £95m, FY £(245)m
 - includes working capital unwind in Italy
- Q4 order intake down 28%, down 10% for FY
 - market moving towards smaller deals
- Continuing enhancements to our portfolio
 - new partnership agreement with T-Systems
 - integration of Symantec into security portfolio

	Q4 2016/17	Change ¹ (u/l adj. for EE)	FY 2016/17	Change ¹ (u/l adj. for EE)
Revenue	£1,422m	(4)%	£5,479m	(2)%
EBITDA	£204m	(1)%	£495m	(11)%

Global Services (ex-Italy) 12-month rolling cash flow (pro forma⁵)



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. Year on year comparison has been revised to reflect the outcome of the investigation into our Italian business

²United States & Canada and Latin America

³Asia Pacific, the Middle East and Africa

⁴Continental Europe

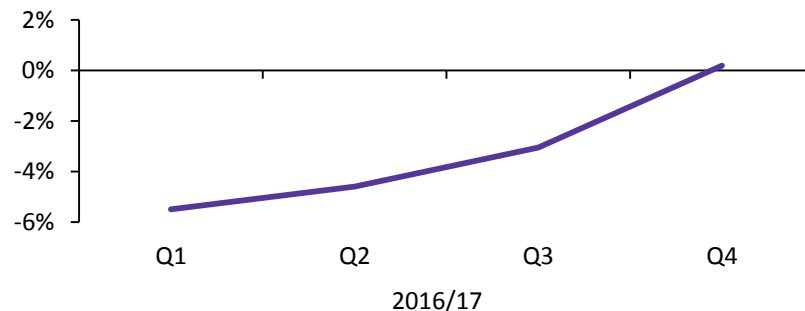
⁵Calculated as though EE had always been part of the group

Wholesale and Ventures – improved revenue performance

- Q4 underlying revenue¹ adj. for EE flat
 - strong quarter for Ventures
 - good growth in fibre broadband and Ethernet
 - offset by continued decline in high-margin Partial Private Circuits and call volumes
- Q4 underlying EBITDA¹ adj. for EE down 2%
 - reflects ongoing shift in Wholesale revenue mix
 - larger seasonal decline expected in Q1 2017/18 due to timing on some major contracts
- Q4 operating cash flow £147m
- Q4 order intake down 15%
 - full year up 38%

	Q4 2016/17	Change ¹ (u/l adj. for EE)	FY 2016/17	Change ¹ (u/l adj. for EE)
Revenue	£541m	flat	£2,109m	(3)%
EBITDA	£220m	(2)%	£834m	(6)%

Underlying revenue growth adj. for EE¹

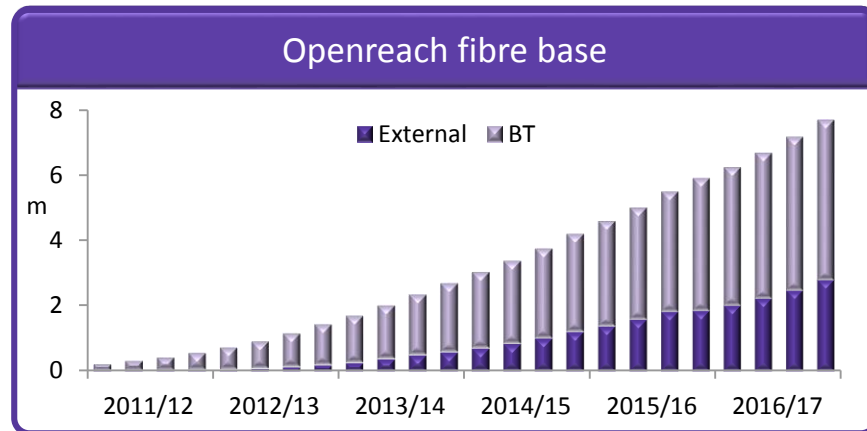


¹excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015. Revenue also excludes transit

Openreach – record fibre growth

- Q4 revenue flat
 - c.£60m impact from regulation offset by 39% growth in fibre broadband revenue
- Q4 EBITDA flat
- 520,000 fibre broadband net connections
 - 59% of net connections from other providers
 - 7.7m premises connected, 29% of those passed
 - BDUK take-up assumption increased to 39%
- Physical lines down 103,000
- Investing for better customer experience
 - ahead on all 60 of Ofcom's copper MSLs²
 - ahead on 5/6 Ethernet MSLs²
 - missed appointments halved in Q4 year on year

	Q4 2016/17	Change ¹	FY 2016/17	Change ¹
Revenue	£1,289m	flat	£5,098m	flat
EBITDA	£695m	flat	£2,633m	(1)%



¹ compared to revised financials reflecting the new group structure effective from 1 April 2016

² Minimum Service Levels



Simon Lowth
Group Finance Director



Q4 results – financial overview

		Underlying adj. for EE YoY ¹	YoY ²
Revenue³	£6,128m	(0.9)%	9%
EBITDA³	£2,069m	(4.6)%	2%
Specific items⁴	£459m	-	113%
EPS - reported	3.8p	-	(49)%
EPS³ - adjusted	8.4p	-	(13)%
Capital expenditure	£1,022m	-	34%
Normalised free cash flow⁵	£834m	-	down £685m

¹ excludes specific items, foreign exchange movements, disposals, and transit. Calculated as though EE had been part of the group from 1 April 2015. Prior year numbers have been revised to reflect the outcome of the investigation into our Italian business

² including EE from acquisition on 29 January 2016. Prior year numbers have been revised to reflect the outcome of the investigation into our Italian business

³ before specific items

⁴ net specific items after tax

⁵ before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

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Financial impact of review into BT's Italian business

Financial Impact	Q2	Q3	Q4	2016/17 outlook provided Jan '17	2016/17 ¹ result	2017/18 outlook
Revenue ²		c.£120m	c.£80m	c.£200m	c.£200m	c.£200m
EBITDA ²		c.£120m	c.£50m	c.£175m	c.£170m	c.£175m
Normalised free cash flow ³		c.£100m	c.£350m	up to £500m	c.£450m	c.£175m
Specific item in 2016/17 for change in accounting estimates / investigation costs	£145m	£100m	£15m ⁴	c.£245m	£260m	
Errors revised in prior period comparatives		£268m		£268m	£268m	

- detailed balance sheet reviews in seven selected country operations in Global Services outside UK, supported by EY
 - together with the investigation in Italy these covered around two-thirds by asset value of our operations outside UK
 - no similar issues or areas of concern identified elsewhere, giving comfort this was isolated to Italy

¹ inclusive of Q2, Q3 and Q4 impact

² before specific items

³ before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

⁴ all investigation cost

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Regulatory certainty key to investment landscape

2016/17 and 2017/18

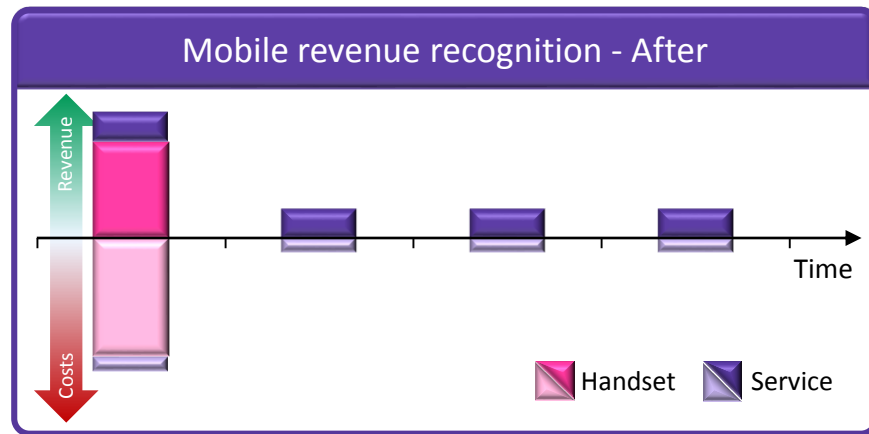
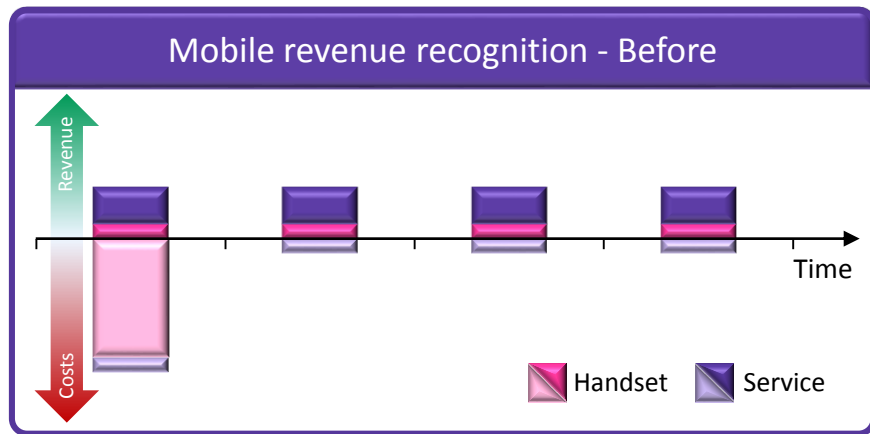
- 2016/17 regulation impacted Openreach revenue and EBITDA by c.£230m
 - c.£180m from Business Connectivity Market Review
 - c.£50m from Fixed Access Market Review
- 2017/18 impacted by:
 - c.£120m Openreach impact from BCMR (incl. dark fibre in H2) and MPF price cut during lacuna period
 - c.£60m phasing drag between new business rates implementation and regulatory reviews
 - mid tens of millions of pounds roaming drag

2018/19 and beyond

- Further regulatory impacts on revenue and EBITDA from:
 - Wholesale Local Access Market Review (MPF, GEA, DPA)
 - Business Connectivity Market Review, including a full year of dark fibre
 - Narrowband Market Review (WLR, ISDN, Solus voice)

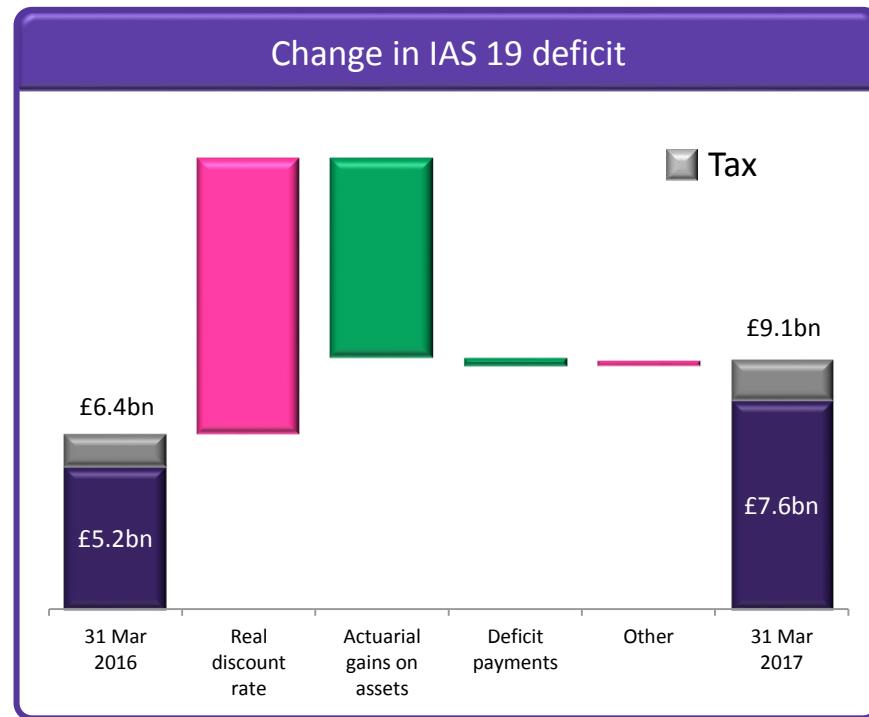
Impact of IFRS 15 on revenue recognition

- Move away from cash-based accounting
- Earlier revenue and EBITDA recognition
- Accounting of handset contracts is the largest change to BT
- Adoption from Q1 2018/19
- Accelerated profit may lead to a one-off additional cash tax charge, split between 2018/19 and 2019/20



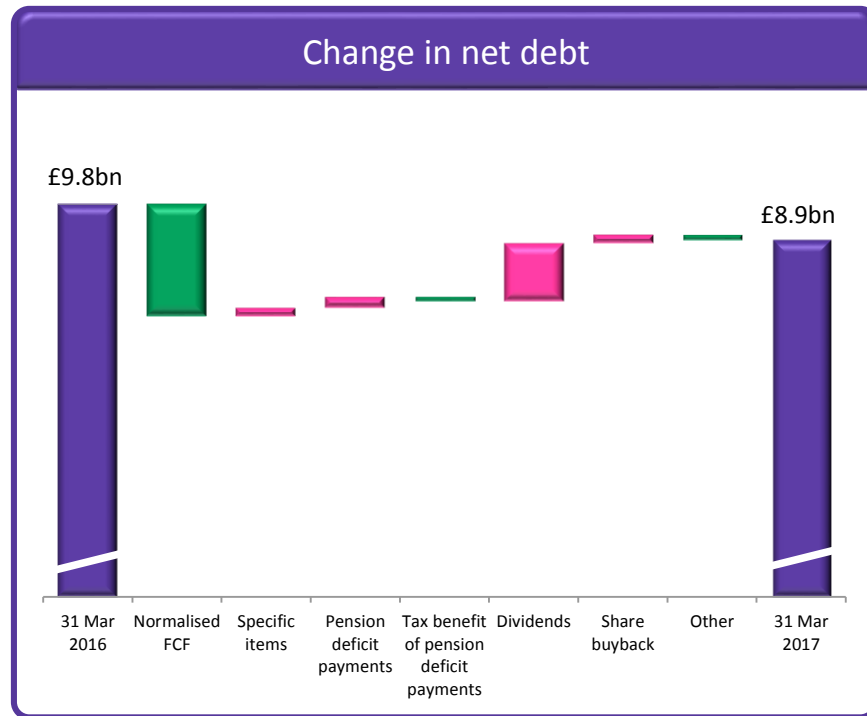
Pension – discount rate has reduced this year

- IAS 19 deficit £7.6bn net of tax at 31 March 2017
 - (Q4 2015/16: £5.2bn)
- Continued low discount rate impacts liabilities
 - BTPS liabilities £58.6bn (Q4 2015/16: £49.1bn)
 - real discount rate negative 0.78% (Q4 2016/17: positive 0.44%)
 - 2017/18 operating charge expected to increase by around £100m
- Increase in assets
 - assets £50.0bn (Q4 2015/16: £43.1bn)
- Triennial funding valuation of BTPS due as at 30 June 2017



Debt and liquidity

- Strong balance sheet with certainty of funding
- Net debt of £8.9bn at 31 March 2017
 - Q4 2015/16: £9.8bn
- Cash and current investments of £2.0bn
- Committed undrawn facilities of £3.6bn
- BBB+ (or equivalent) rating with Fitch, Moody's and S&P
- IFRS 16 adoption Q1 2019/20



2017/18 financial outlook

Underlying revenue¹ ex transit adjusted for the acquisition of EE

Broadly flat

EBITDA²

£7.5bn - £7.6bn

Normalised free cash flow³

£2.7bn - £2.9bn

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

²before specific items

³before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

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Gavin Patterson
Chief Executive



Our strategy remains the right one

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

Our investments in customer experience showing progress



- Investing in our people
 - 1.4 million hours of training
 - 8,700 EE employees trained to Digital Academy foundation level
 - 1,500 new engineers and apprentices hired in Openreach



- Investing in our products and services
 - BT Call Protect diverts nuisance calls; used by over 2 million customers
 - digital services like Consumer.com, My EE and My BT help customers



- Leading to better outcomes for our customers
 - 10 months' consecutive improvement in Group Customer Perception Score¹
 - Right First Time increased 6.4% this year¹ ahead of target
 - EE achieved 100% onshore customer calls and lower customer propensity to call
 - BT-brand fixed-line customers now have any faults fixed one day sooner
 - BT broadband had lowest gap between peak and headline speeds in Ofcom survey
 - Openreach missed appointments more than halved in Q4 YoY

¹ measured against group-wide RFT index
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Cost transformation remains core to our strategy

- Restructuring plans announced today expand and accelerate cost transformation
 - new operating model for Global Services
 - simplify Group Functions and Technology, Service & Operations
- Clarify accountabilities, remove duplication, improve efficiencies
 - removing 4,000 roles, mainly from managerial and back office areas
- c.£300m saved over 2 years provides headroom to:
 - increase investment in customer experience and networks
 - offset market and regulatory pressures
- c.£300m restructuring charge over the next two years, treated as specific item
- Q4 cost transformation progress
 - redesigning the Business and Public Sector organisation

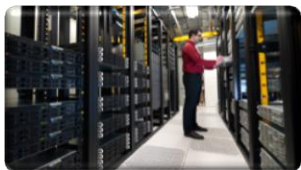
Global Services – moving to a simpler operating model



- Conclusions of Global Services strategic review
 - strong set of products, very good multinational customer base
 - technology trends mean we're less dependent on owning physical local network



- Positioning ourselves for the future
 - reposition Global Services as a more focused digital business
 - prioritise innovation of cloud-based platforms that deliver our products and services
 - BT's global network remains at the core



- Creating a simpler operating model
 - two-year restructuring of our operations

Improve Global Services' financial performance, risk profile, and long-term value to BT

Successful first year of EE integration



- Strong financial performance
- Cross-selling opportunities being realised
 - BT Sport available to EE customers
 - business mobile net adds up strongly over the year



- c.£150m per annum run-rate cost synergies achieved in first year
 - ahead of £100m target due to synergies being realised early
 - early focus on renegotiating supplier terms, insourcing and estate rationalisation



- Taking the best of both cultures

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

The UK's digital champion - investing in digital infrastructure

Delivering on our commitment to invest



3-year Openreach and EE capex

- c.£2bn combined capex in our first year
- Openreach capex up again in 2016/17

Mobility progress

- 4G geographic coverage improved from 60% in March 2016 to 80% today
- 2017 smartphone releases set to benefit from increased 4G+ speeds
- 5G research with a number of partners

Preparing to lead on 5G

Fibre deployment progress

- 26.5m premises passed with fibre broadband
- going beyond BDUK areas
- 500k ultrafast premises now passed, using combination of FTTP and G.fast

Ambition to pass 12m with ultrafast by 2020

Openreach consultations announced today



- Proposed consultation on large-scale Fibre-to-the-premises deployment
 - Openreach to discuss approach with Ofcom, Government and CP customers
 - formal consultation anticipated in the summer



- Consultation on Long Reach VDSL
 - increases broadband speed over long lines connected to fibre cabinets
 - follows successful field trials in Scotland and Sussex
 - could help to deliver universal broadband coverage of at least 10Mbps



- Changes to the way Openreach engages with industry
 - expected to lead to greater discussion and collaboration with CP customers

Investigating business models to accelerate infrastructure investment

Need for regulatory visibility

What do we want from the regulatory landscape?

- **Certainty**
 - regulatory timescales aligned to network investment horizon
- **Clarity**
 - a simple and robust framework
- **Fairness**
 - companies able to generate an appropriate return on investment

Investments we're preparing to make



Fibre-to-the-premises

- going further than our 2 million ambition



Universal Broadband Commitment

- improving broadband speeds in the most rural areas

Summary

- Underlying UK operations are performing well
- Investing to reinforce strength
- Market and regulatory headwinds exist
- Accelerating cost transformation to offset these
- Well positioned but need more regulatory visibility to confirm long-term outlook

Q&A

Appendix

Income statement

£m	Q4 2016/17	YoY change	Key points
Revenue¹	6,128	9%	▶ growth mainly as a result of contribution of EE ▶ £132m favourable impact from FX ▶ £32m reduction in transit revenue
- u/l ² ex transit adj. for EE		(0.9)%	▶ decline mainly due to public sector revenue
EBITDA¹	2,069	2%	▶ growth mainly as a result of contribution of EE
Operating profit¹	1,178	(5)%	▶ depreciation and amortisation up 13% due to EE
Profit before tax¹	1,031	(6)%	▶ net finance expense up 23% due to EE
EPS¹	8.4p	(13)%	▶ additional shares issued as part of EE acquisition
Specific items³	459	113%	▶ includes £342m relating to historical Deemed Consent practices, £58m regulatory risk provision, and £123m EE integration related costs

¹ before specific items

² excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015

³ net charge after tax

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Free cash flow

£m	Q4 2016/17	YoY change	Key points
EBITDA¹	2,069	41	▶ reflects acquisition of EE
Capex	(906)	(273)	▶ reflects acquisition of EE
Interest	(154)	(42)	
Tax ²	(180)	(42)	
Working capital & other	5	(369)	▶ unwind of inappropriate working capital practices in Italy
Normalised FCF	834	(685)	
Cash tax benefit of pension deficit payments	11	(33)	
Specific items	(59)	73	
Reported FCF	786	(645)	
Pension deficit payment	(255)	-	
FCF (post pension deficit payments)	531	(645)	

¹ before specific items

² before cash tax benefit of pension deficit payments