BT Group plc
Q2 2017/18 results

2 November 2017

Forward-looking statements caution

Certain statements in this presentation are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: our outlook for 2017/18 including revenue, EBITDA, free cash flow and progressive dividends; our deployment of ultrafast broadband and rollout of G.fast technology; and our investment in the rollout of 4G and FTTP and our move to all-IP.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

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Gavin Patterson

Group Chief Executive

Q2 key messages

- Q2 results inline with our expectations
- Improving customer experience
- Bringing BT Consumer and EE together to drive convergence
- Investing to maintain fixed and mobile network leadership
- Delivering on group cost transformation and restructuring Global Services
- Engaging with Pension Trustee, scheme members and unions

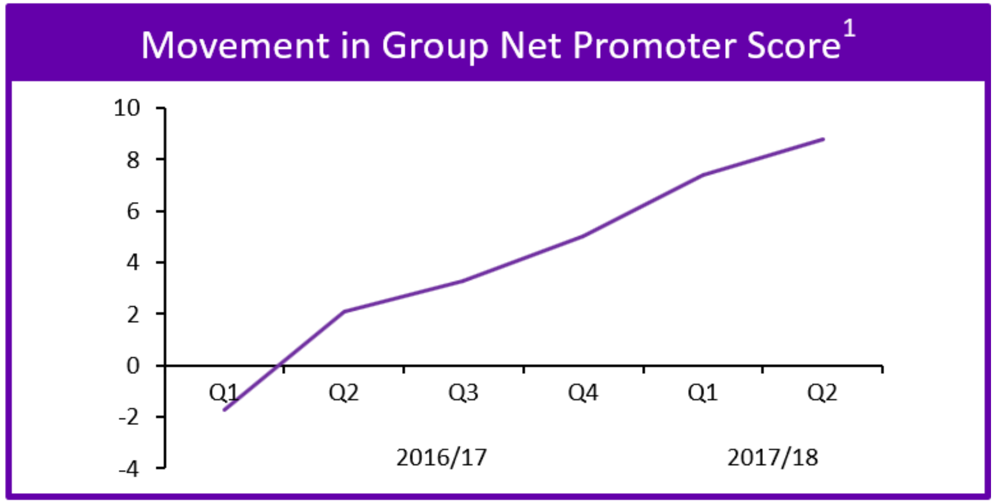
Executing our strategy and responding to challenges

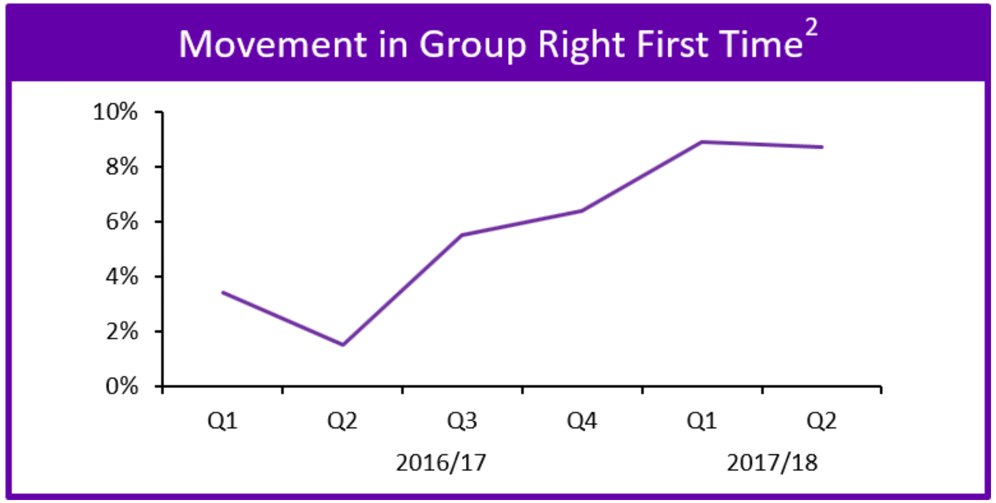
Q2 results

	Q2 2017/18	Q2 2016/17	Change
Revenue[1]	**£5,951m**	£6,053m	(2)%
– underlying ex transit[2]			(1.5)%
EBITDA[1]	**£1,811m**	£1,888m	(4)%
Normalised free cash flow[3]	**£689m**	£894m	down £205m

[1] before specific items
[2] before specific items, foreign exchange movements and disposals
[3] before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

Strategy - progress on customer experience





- Group NPS and RFT up again YoY
- Improving customer service
  - average BT Consumer call waiting time down to 74 seconds (from 304 seconds last year)
  - onshore call handling 100% in EE and 85% in BT Consumer
- Driving digitalisation
  - over 10m My EE downloads
- Reducing complaints
  - EE lowest ever complaints
- Reducing faults
  - copper network faults down 2%

[1] Group 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
[2] Group RFT is our key measure of customer service and shows the cumulative movement since April 2016. It tracks how often we keep our promises to customers (eg completing orders/fixing faults on time)
The scope of NPS and RFT are re-baselined at the start of the financial year

Strategy - invest for growth

- EE continues to upgrade mobile network
  - 4G geographic coverage now at 86%; ESN milestone hit in September
  - converting 2G spectrum to provide superfast 4G speeds at 600 sites

- Fibre – superfast rollout
  - 95% UK availability by December 2017
  - universal broadband offer to government for at least 10Mbps across UK by 2020
    - › proposed cost recovery of £450m - £600m through WLA[1]

- Fibre – ultrafast rollout
  - around 770k homes and businesses passed
  - aim to pass 1m homes and businesses with G.fast by April 2018
  - Openreach consultation on large-scale FTTP[2] build progressing well

- Intend to be all-IP in UK by 2025
  - IP products to enable simpler CP[3] ordering process, certain orders with real-time provision
  - FTTP available now; single-order fibre products in trial, planned launch in 2018/19
  - enhanced functionality of IP services

[1] Wholesale Local Access [2] Fibre-To-The-Premises [3] Communications Provider

Regulation - constructive engagement

DCR[1]

- Refreshed brand for Openreach
- Independent board working well
- Openreach Limited soon to be incorporated

WLA[2]

- Investments need to earn a fair return

BCMR[3]

- CAT[4] upheld our appeal
- Awaiting publication of CAT's reasoning

Spectrum

- 3 UK challenge has obliged us to challenge proposed spectrum auction design
- Expect court hearing in December

[1] Digital Communications Review [2] Wholesale Local Access [3] Business Connectivity Market Review [4] Competition Appeal Tribunal

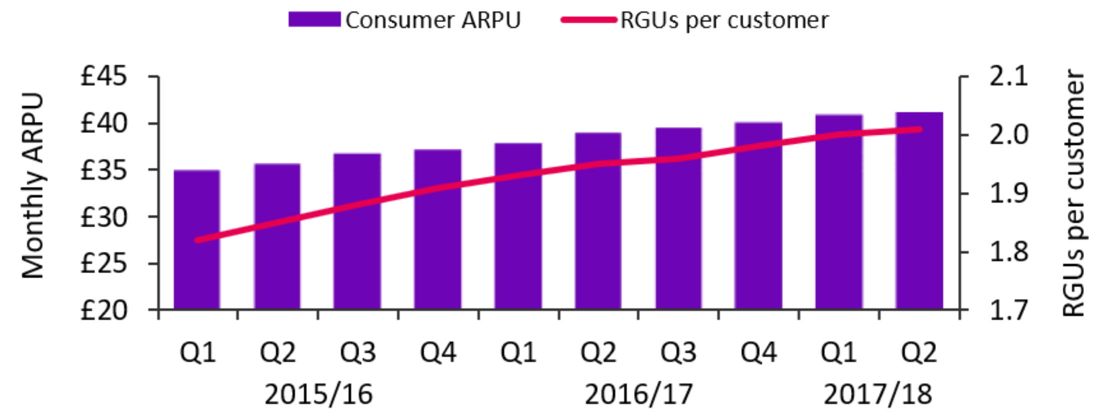
Customer-facing units update

BT Consumer - delivering increased RGU per subscriber

- Revenue up 1% driven by
  - Calls, Lines, Broadband, TV and Sport
  - 12-month rolling ARPU[1] up 6%
  - RGUs[2] per customer up 3%
  - 57% of broadband customers now on fibre
  - BT Sport viewing up 8%[3], driven by Premier League and UEFA Champions League football
- Further investments in customer experience
  - 85% calls now answered in the UK
  - complaints down 25% for landline and 18% for broadband
  - customers using My BT app, up 50%
- EBITDA down 3%, reflecting higher customer experience and sports rights costs

	Q2 2017/18	Q2 2016/17	Change
Revenue	£1,261m	£1,251m	1%
EBITDA	£245m	£252m	(3)%
Capex	£74m	£53m	40%

BT Consumer monthly ARPU and RGUs



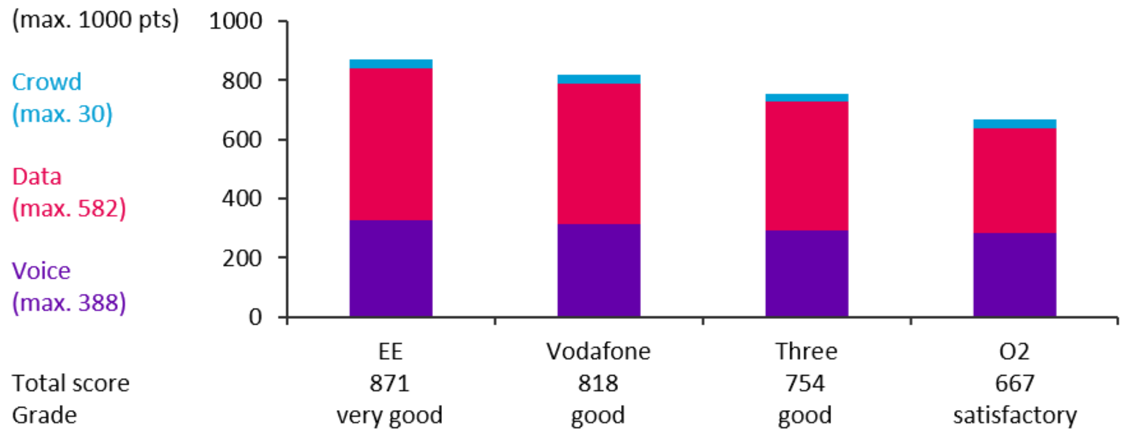
[1] Average Revenue Per User [2] Revenue Generating Units [3] excl Showcase and digital

EE – 'more for more' driving growth

- Fourth consecutive quarter of revenue growth
  – postpaid up 6%; prepaid down 12%
- Group mobile base 29.7m
  – 279,000 postpaid adds, group base now 17.3m
  – 260,000 prepaid decline, group base now 6.3m
- Investing to improve customer experience
  – 4G geographic coverage now 86% of the UK
  – network coverage and performance recognised in the latest OpenSignal and P3 tests, and MobileChoice award
  – four new 'Showcase' stores
  – 10m customers have downloaded the My EE app
  – sole UK network for new Apple Watch
- EBITDA up 16%
  – driven by revenue growth and reduced indirect costs
  – smartphone launches to impact H2, especially iPhone X

	Q2 2017/18	Q2 2016/17	Change
Revenue	£1,326m	£1,277m	4%
EBITDA	£326m	£282m	16%
Capex	£155m	£149m	4%

The UK's best performing mobile network[1]



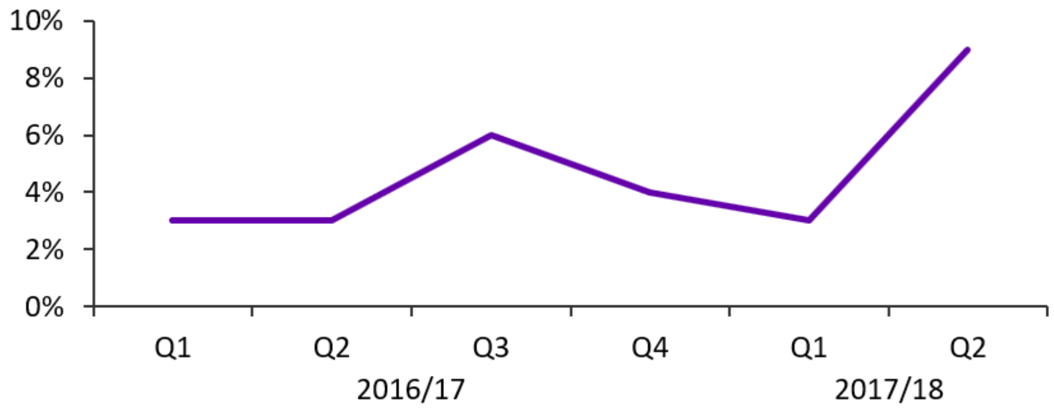
[1] source: P3, 'The 2017 Mobile Network Test in the United Kingdom'

Business and Public Sector - improving trend

- Underlying revenue ex transit down 1%
  - SME revenue flat with improving growth in mobile, VoIP and networking offset by decline in traditional voice
  - Corporate also flat, with strong growth in mobile
  - Public Sector and Major Business down 5%, with growth in mobile offset by lower equipment sales
- EBITDA down 7%
  - public sector headwinds
  - mobile EU roaming cuts
  - if we strip out public sector and EU roaming, close to flat
- Order intake down 14%
  - 12-month rolling up 22%

	Q2 2017/18	Q2 2016/17	Change
Revenue – u/l ex transit	£1,153m	£1,177m	(2)% (1)%
EBITDA	£358m	£387m	(7)%
Capex	£83m	£56m	48%

Growth in mobility revenue[1]



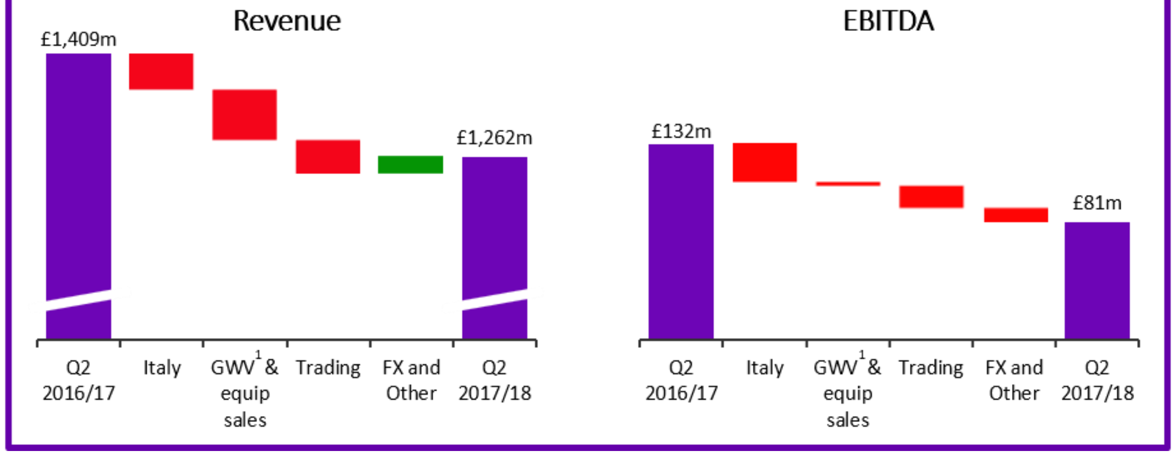
[1] pro forma

Global Services - responding to intensified challenges

- Underlying revenue ex transit down 11%
  - down 8% excl. Italian business
  - managed decline in low-margin IP Exchange and equipment sales
- Order intake down 38% to £0.9bn
  - 12-month rolling down 25%
  - reflecting large contracts in prior year and international corporate market conditions
- Restructuring continues
  - towards a more digital, cloud-based offering
  - shifting focus from domestic to global customers
  - tackling our cost base to become more efficient
- EBITDA down 39%
  - down 28% excl. Italian business
  - trading conditions and higher leaver and pension costs

	Q2 2017/18	Q2 2016/17	Change
Revenue – u/l ex transit	£1,262m	£1,409m	(10)% (11)%
EBITDA	£81m	£132m	(39)%
Capex	£59m	£100m	(41)%

Global Services' revenue and EBITDA movements



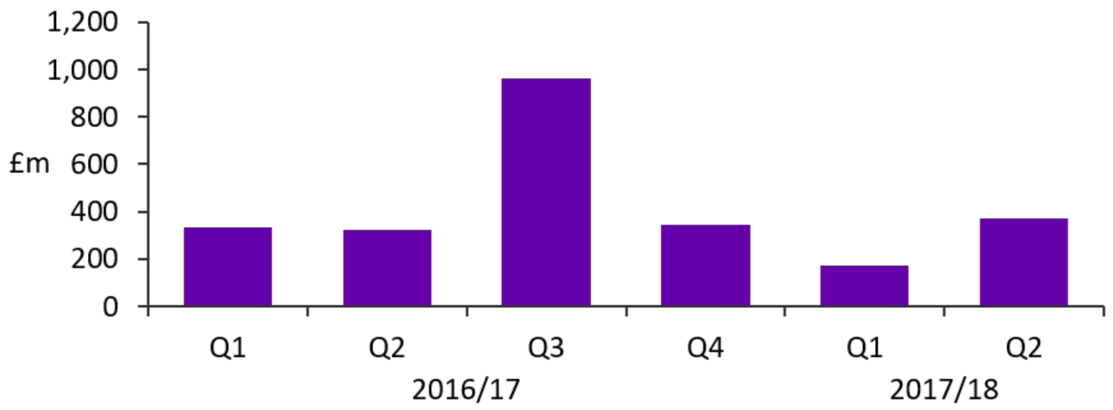
[1] Global Wholesale Voice

Wholesale and Ventures - ongoing wholesale market challenges

- Underlying revenue ex transit down 3%
  - Managed Solutions down 8%; Data and Broadband down 8%; Voice down 3%
  - Mobile revenue up 11%
  - Ventures revenue down 2% - decline in Phonebook partially offset by growth in bulk messaging, Supply Chain and Fleet Solutions
  - 26 InLinkUK kiosks now live
- Order intake £372m, up 16%
  - up 117% on Q1, reflecting expected timing of deals in H1
  - 12-month rolling up 32%
- EBITDA down 8%
  - reflecting legacy decline and revenue mix

	Q2 2017/18	Q2 2016/17	Change
Revenue – u/l ex transit	£505m	£522m	(3)% (3)%
EBITDA	£187m	£204m	(8)%
Capex	£55m	£51m	8%

Quarterly order book

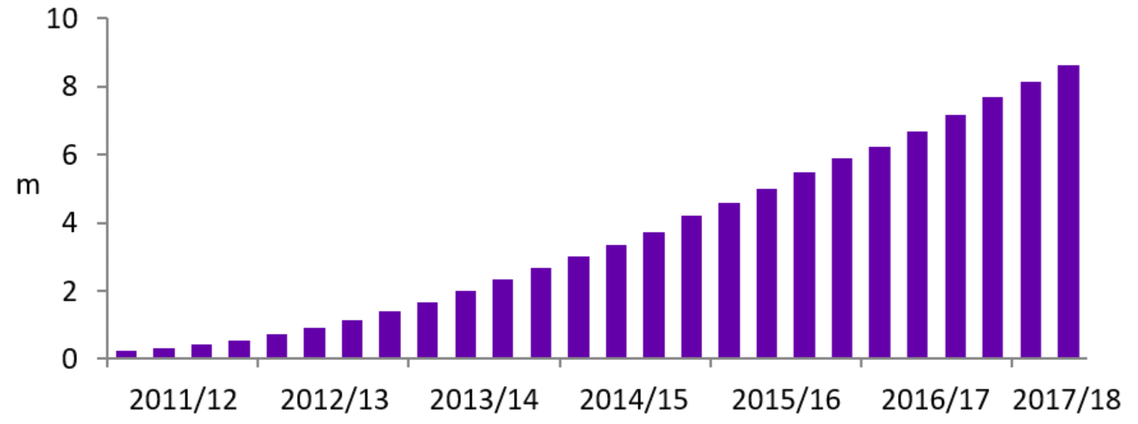


Openreach - strong fibre growth

- Revenue up 1%
  - continued strong growth in fibre broadband, up 21%
- EBITDA down 1%
  - strong growth in fibre offset by price changes, increased business rates and higher pension charge
- Normalised free cash flow down 60%
  - CP receipts due in different quarters YoY
- 505,000 fibre broadband net additions
  - 8.6m premises connected, 32% of those passed
  - ultrafast now available to around 770,000 premises
- Ahead on all 60 copper minimum service levels
- 2% reduction in H1 copper network faults
- Broad support for consultation on large-scale FTTP
  - but co-operation[1] required to resolve key enablers

	Q2 2017/18	Q2 2016/17	Change
Revenue	£1,281m	£1,273m	1%
EBITDA	£624m	£630m	(1)%
Capex	£397m	£357m	11%

Openreach fibre connections



[1] involving Openreach, Communications Providers, Ofcom and Government

Simon Lowth

Group CFO

Q2 2017/18 results - financial overview

	Q2 2017/18	Q2 2016/17	Change
Revenue[1]	**£5,951m**	£6,053m	(2)%
– underlying ex transit[2]			(1.5)%
Operating costs[3]	£(4,140)m	£(4,165)m	1%
EBITDA[1]	**£1,811m**	£1,888m	(4)%

[1] before specific items
[2] before specific items, foreign exchange movements and disposals
[3] before specific items and depreciation and amortisation

Q2 2017/18 results - financial overview

	Q2 2017/18	Q2 2016/17	Change
Adjusted EBITDA[1]	**£1,811m**	£1,888m	(4)%
Depreciation and amortisation	£(892)m	£(869)m	(3)%
Net finance expense[1]	£(130)m	£(146)m	11%
Tax[1]	£(161)m	£(156)m	(3)%
Profit after tax[1]	**£628m**	£717m	(12)%
Specific items	£(104)m	£(151)m	31%
Profit for the period	**£524m**	£566m	(7)%

[1] before specific items

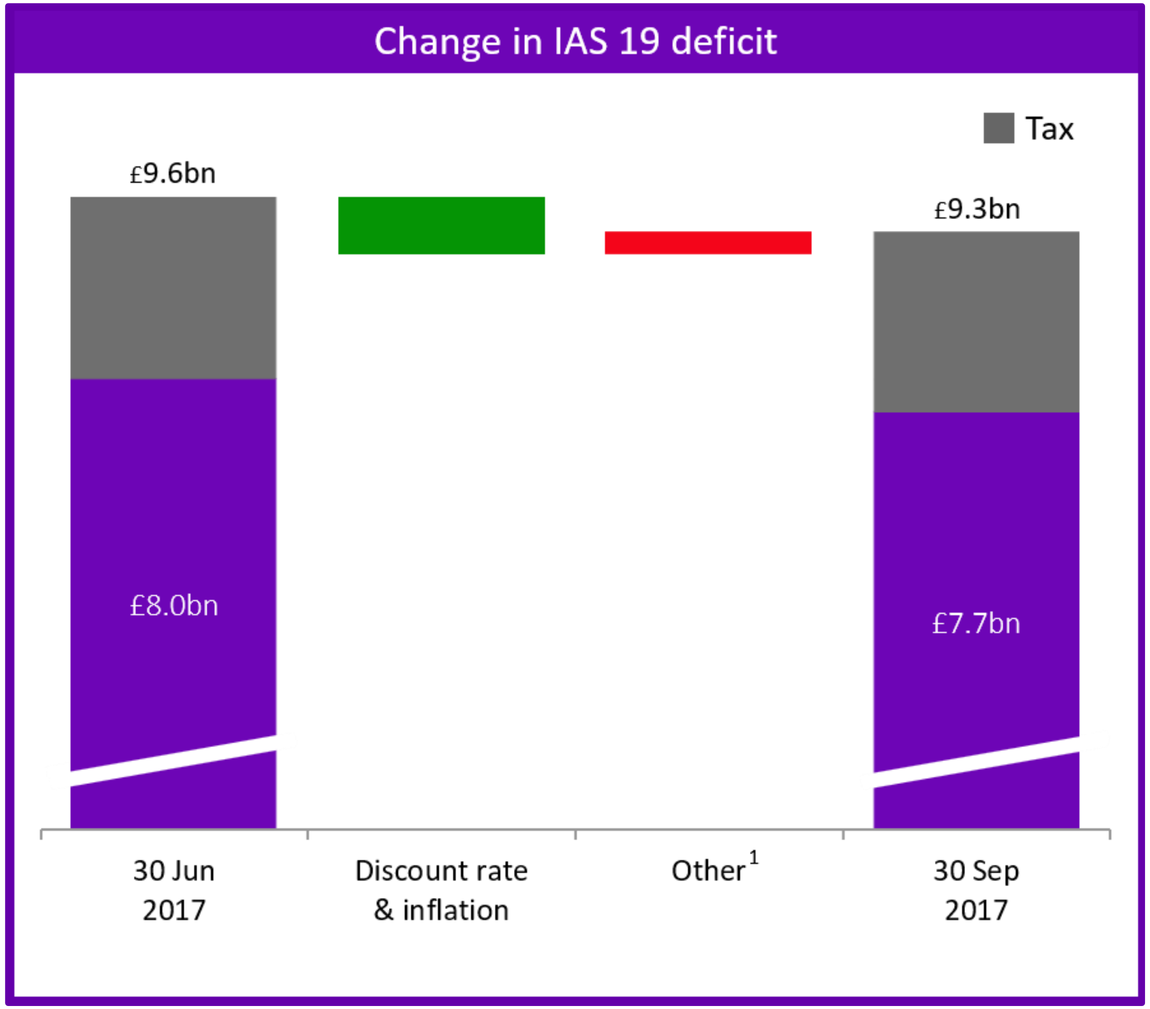
Q2 2017/18 results - cash flow

	Q2 2017/18[1]	Q2 2016/17[1]	Change
Adjusted EBITDA	**£1,811m**	£1,888m	(4)%
Tax paid exc. cash tax benefit of pension deficit payments	£(113)m	£(159)m	29%
Change in working capital	£(141)m	£0m	n/m
Change in provisions	£86m	£10m	n/m
Net finance paid	£(84)m	£(94)m	11%
Cash available for investment and distribution	**£1,559m**	£1,645m	(5)%
Capital expenditure	£(870)m	£(751)m	(16)%
Normalised free cash flow[2]	**£689m**	£894m	(23)%
Net debt	£9,520m		
Interim dividend per share	4.85p	4.85p	-

[1] before specific items
[2] before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
n/m = not meaningful

Pension

- IAS 19 deficit £7.7bn net of tax at 30 Sept 2017
  - (Q1 2017/18: £8.0bn net of tax)
- Triennial funding valuation proceeding
  - constructive discussions with the Trustee
  - exploring a range of options
  - expected to complete in first half of CY 2018
- Reviewing our defined benefit and defined contribution schemes
  - to provide fair, flexible and affordable pensions
  - ongoing discussions with unions
  - 60-day employee consultation to launch shortly
  - RPI indexation for Section 'C' members



[1] includes service accrual and interest on deficit

Cost transformation

c.£19.5bn annual cash costs

EE integration synergies

- £250m annual cost synergy run-rate
- On track to deliver targets
- £400m cost synergies p.a. and £1.6bn NPV revenue synergies

Restructuring programmes

- Group functions, TSO and Global Services
- £300m payback and £300m in costs within two years
- c.40% of 4,000 roles removed

Operational performance improvement

- Customer and performance transformation
- Productivity improvements in ongoing activities

All cost transformation programmes on track

Introducing a new package of disclosures

IFRS 15

- IFRS 15 adoption from Q1 2018/19
  - using a modified retrospective basis
  - reconciliation of primary financial statements under IAS 18 to be provided

New KPIs

- realigned with internal business metrics
  - improving the visibility of the drivers of operational performance

Quarterly reporting

- move from full quarterly reporting
  - quarterly trading statements at Q1 and Q3; full reports at half and full year

Regular business briefings

- starting in Q1 2018/19

New disclosures will …

- ✓ improve transparency
- ✓ align with underlying business drivers
- ✓ simplify reporting
- ✓ provide a longer-term focus

2017/18 financial outlook unchanged

Underlying revenue[1] ex transit	Broadly flat
EBITDA[2]	£7.5bn - £7.6bn
Normalised free cash flow[3]	£2.7bn - £2.9bn
Dividend per share	Progressive

[1] excludes specific items, foreign exchange movements and disposals
[2] before specific items
[3] before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

Gavin Patterson
Group Chief Executive

Q & A

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