



BT Group plc H1 2019/20 results

31 October 2019

Forward-looking statements caution

Certain statements in this results release 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 2019/20 including revenue, adjusted EBITDA and free cash flow; our roll out of FTTP; and launch of 5G.

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.

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 hackers, criminals, terrorists or nation states; disruptions to the integrity and continuity of our supply chain (including any impact of global political developments with respect to Huawei); insufficient engagement from our people; and risks relating to our BT transformation plan.

BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Note: All numbers are on adjusted basis. A reconciliation to reported numbers can be found in our results release

Philip Jansen
Chief Executive

Building a better BT for the future

Need to be bolder, smarter, and faster

Unprecedented launch of new products, services, and skills programmes to help create a better-connected and more-competitive Britain

Focus on value-for-money converged connectivity and services, with actions in the second quarter demonstrating continued positive progress against strategic pillars

Prepared to act decisively to maintain our customer bases

2019/20 financial outlook unchanged

Differentiated customer experience

- 13th consecutive quarter of Group NPS¹ improvement
- Ofcom's review of broadband pricing announced:
 - our actions to improve competitive position taken into account
 - no further intervention proposed at this time
- EE brand launched 4G and 5G unlimited data handset and SIM plans in line with its more-for-more approach
- Unveiled new converged Halo from BT plans for homes and businesses
- Upgrading 700,000 homes and businesses to Superfast Broadband
- Next generation SD WAN² cloud connections for enterprise customers

¹ Net Promoter Score

² Software Defined Wide Area Network



Best converged network

- 4G network has again been named best mobile network by Rootmetrics
- 5G network now available in more than 20 large towns and cities:
 - we will deliver 5G to a further 25 towns in 2019
- Rural mobile coverage leader, continuing to invest:
 - ensuring customers get access to the digital connectivity they need, wherever they are
- Openreach FTTP¹ rollout continues at pace and scale, at low cost, and with attractive wholesale pricing:
 - one premises passed about every 26 seconds
 - constructive discussions on fibre enablers continue

¹ Fibre-to-the-Premises



Simplified, lean & agile business

- Cost transformation programme on track:
 - further c.1,500 roles removed in Q2
 - over £1.1bn annualised saving with an associated cost of £487m
- Our Better Workplace Programme is largest of its kind in the UK:
 - moving towards six key regional hubs with leases signed in London and Bristol
- Continuing to develop plans to simplify our processes and systems:
 - huge opportunity but need to deliver for customers
- Continued inorganic changes:
 - divestment of BT Fleet Solutions



H1 financial highlights – in line with expectations

	H1 2019/20 (IFRS 16)	H1 2018/19 (IFRS 16 pro forma)	Change
Revenue¹	£11,413m	£11,624m	(2)%
EBITDA¹	£3,923m	£4,038m	(3)%
Reported capex	£1,882m	£1,833m	3%
Normalised free cash flow²	£604m	£974m	(38)%
Dividend	4.62p	4.62p	unchanged

¹ before specific items

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

Consumer – investing in customer experience and propositions

- Revenue down 1%:
 - international calling, mobile spend cap regulation
- EBITDA down 5%:
 - regulatory pressure on revenue, content costs and spectrum licence fees
- Fixed churn down from 1.6% to 1.3%:
 - BT Plus take up around 25% of BT broadband base
- EE brand launched unlimited plans
- Rootmetrics rate EE best mobile network again, first in all categories
- Innovation and service investment builds through H2:
 - Halo from BT, building on the success of BT Plus
 - 900 Home Tech Experts
 - bringing the BT brand back to more than 600 high-street stores
 - launching 5G on BT brand
 - answering 100% customer calls in UK and Ireland from January 2020, a year ahead of original schedule
 - upgrading 700,000 customers to Superfast Broadband at no extra cost
 - leading the industry with introduction of CPI pricing on BT brand

	H1 2019/20	H1 2018/19 (IFRS 16 pro forma)	Change
Revenue	£5,194m	£5,224m	(1)%
EBITDA	£1,180m	£1,237m	(5)%
Capex	£455m	£373m	22%



Enterprise – continued declines in traditional voice

- Revenue down 5%:
 - continued declines in traditional fixed voice, lower managed service revenue and a reduction in low margin equipment sales
 - partly offset by growth in mobile, VoIP¹, WAN² and Ethernet
- EBITDA down 3%:
 - lower revenue offset by lower labour costs
- Launched new converged product portfolio for businesses:
 - Halo for Business broadband with future-ready digital phone line; 5G on BT; and next generation SD WAN³ cloud connections
 - H2 plans: 24/7 UK-based customer support; and, for SMEs⁴, access to Tech Expert and in-store support
- Broadband base returned to growth
- Rolling 12-month order intakes: retail up 11%; wholesale flat
- Divested BT Fleet Solutions to focus on core business

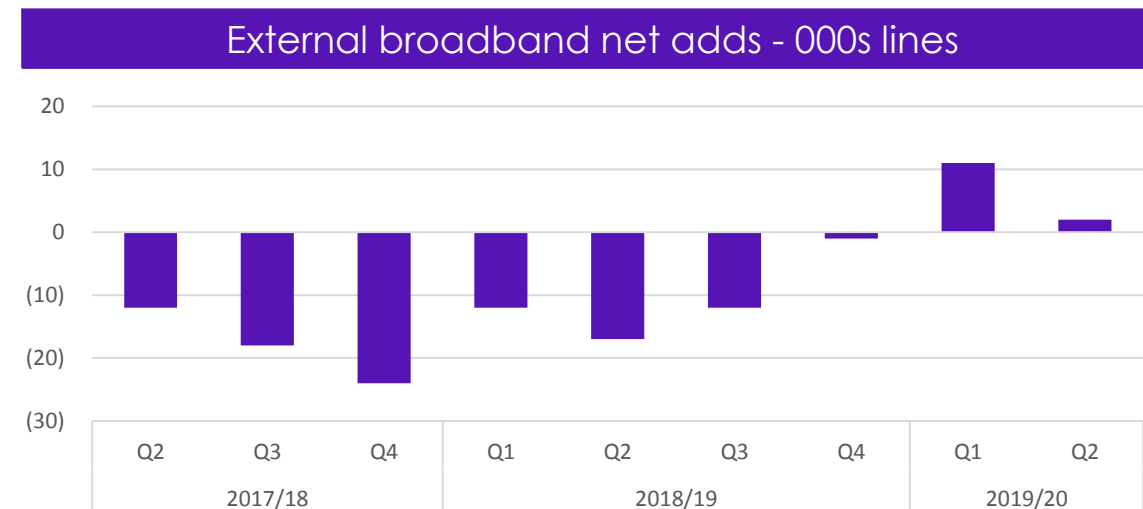
¹ Voice over Internet Protocol

² Wide Area Network

³ Software Defined Wide Area Network

⁴ Small-Medium Enterprises

	H1 2019/20	H1 2018/19 (IFRS 16 pro forma)	Change
Revenue	£3,055m	£3,221m	(5)%
EBITDA	£968m	£1,003m	(3)%
Capex	£233m	£246m	(5)%

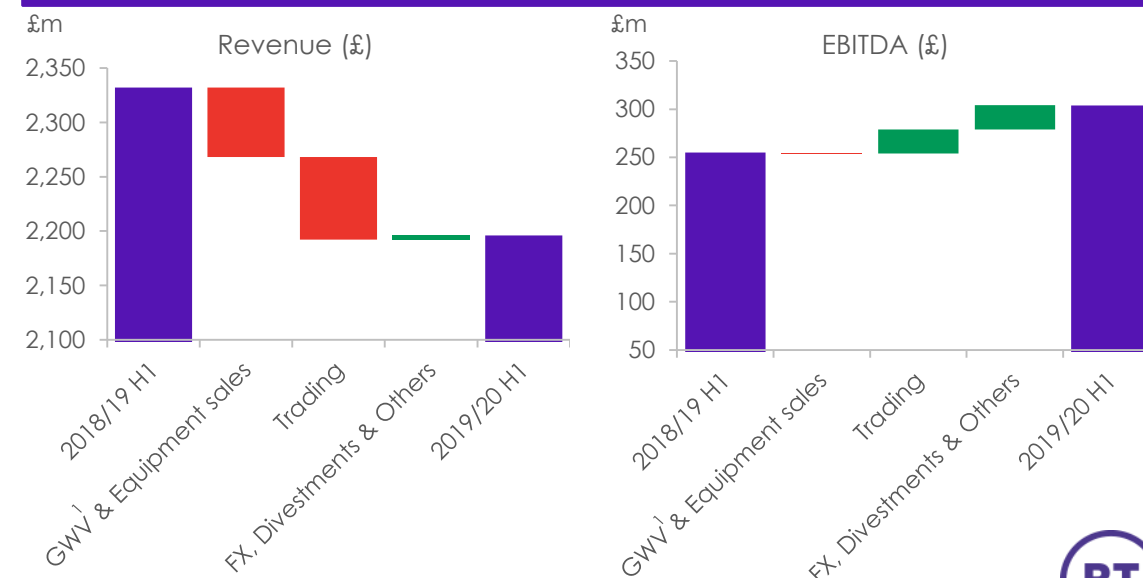


Global – legacy declines, partially offset by growth in Security, and FX

- Revenue down 6%:
 - legacy portfolio declines, strategic decisions to reduce low-margin business and impact of divestments
 - partially offset by growth in Security and favourable foreign exchange movements
- EBITDA up 19%:
 - lower revenue
 - more than offset by one-offs, reduction in operating costs from ongoing transformation and favourable foreign exchange movements
- Rolling 12-month order intake up 4% from large renewals in the quarter including by Nestle

	H1 2019/20	H1 2018/19 (IFRS 16 pro forma)	Change
Revenue	£2,196m	£2,332m	(6)%
EBITDA	£304m	£255m	19%
Capex	£96m	£99m	(3)%

Global's H1 revenue and EBITDA movements



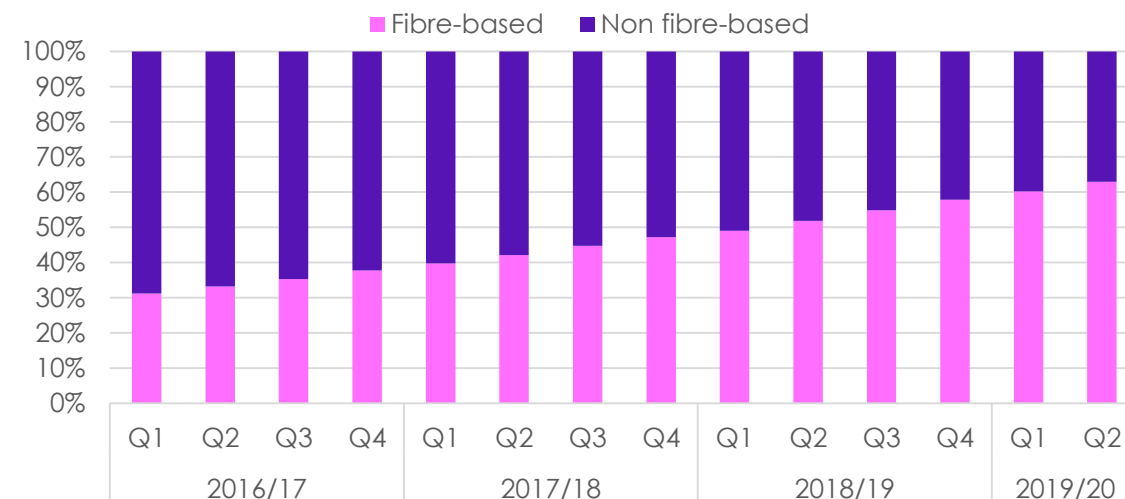
¹ Global Wholesale Voice

Openreach – expanding and filling networks

- Revenue broadly flat at £2.5bn due to:
 - commercial and regulatory price reductions
 - higher service level compensation
- EBITDA down 4% due to higher operating costs as a result of increased business rates, more colleagues to deliver service improvements, and pay inflation
- FTTP rollout continues at pace and scale:
 - accelerated to about 23,000 premises passed per week
 - 103 build locations announced
 - trialling a range of new rural tools and techniques
- Capex, excluding BDUK grant funding deferral, up 16%, driven by the increased investment in FTTP rollout
- Welcomed the Government's £5bn pledge to support the costliest premises in the rollout of gigabit-capable broadband
- Announced new higher-tier FTTP products

	H1 2019/20	H1 2018/19 (IFRS 16 pro forma)	Change
Revenue	£2,536m	£2,548m	flat
EBITDA	£1,417m	£1,478m	(4)%
Capex	£1,015m	£1,055m	(4)%

Proportion of Openreach connected premises



Simon Lowth
Chief Financial Officer

H1 2019/20 results – financial overview

	H1 2019/20 (IFRS 16)	H1 2018/19 (IFRS 16 pro forma)	Change
Adjusted revenue¹	£11,413m	£11,624m	(2)%
Operating costs²	£(7,490)m	£(7,586)m	(1)%
Adjusted EBITDA¹	£3,923m	£4,038m	(3)%

¹ before specific items

² before specific items and depreciation and amortisation

H1 2019/20 results – financial overview

	H1 2019/20 (IFRS 16)
Adjusted EBITDA¹	£3,923m
Depreciation and amortisation	£(2,121)m
Net finance expense ¹	£(359)m
Tax ¹	£(289)m
Adjusted profit after tax¹	£1,156m
Specific items	£(88)m
Reported profit for the period	£1,068m
Adjusted earnings per share	11.7p

¹ before specific items

H1 2019/20 results – cash flow reflects capex increase

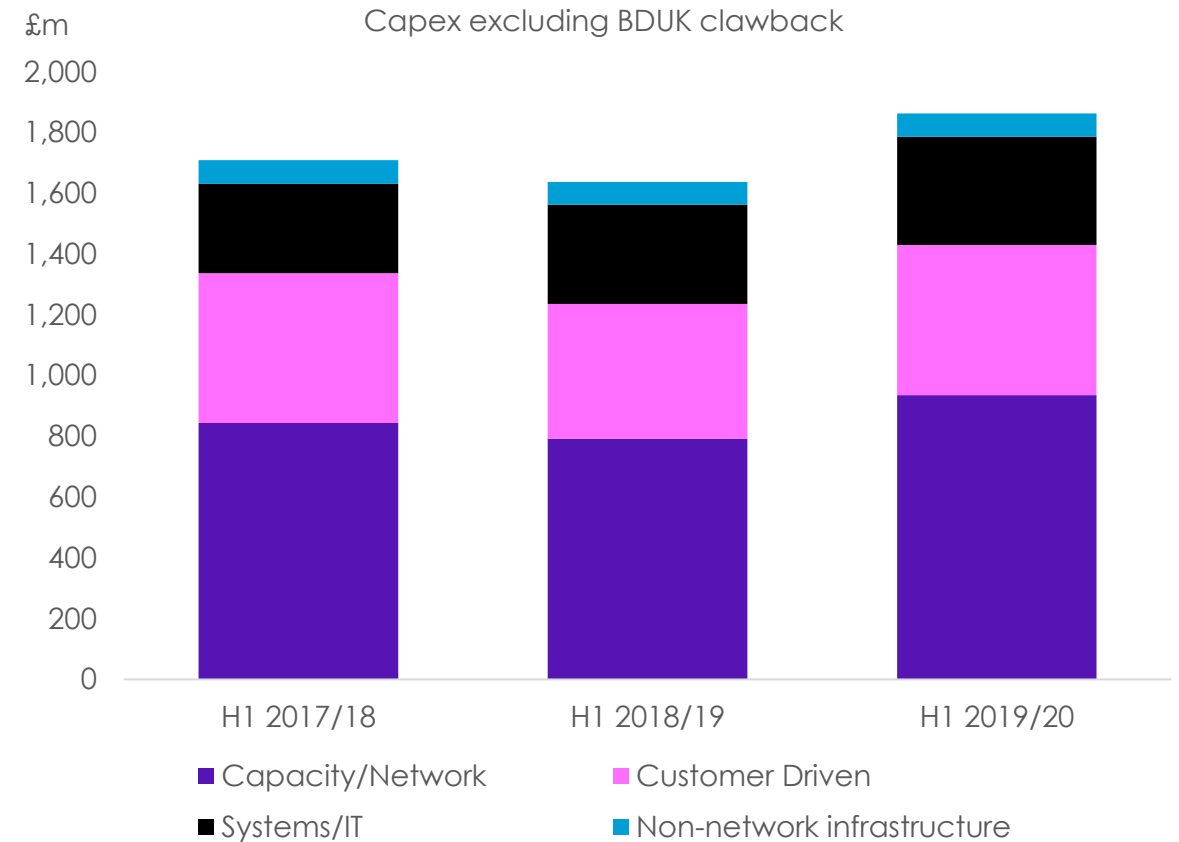
	H1 2019/20 (IFRS 16)	H1 2018/19 (IFRS 16 pro forma)	Change
Adjusted EBITDA¹	£3,923m	£4,038m	(3)%
Interest	£(284)m	£(228)m	25%
Tax (ex cash tax benefit of pension deficit payments)	£(397)m	£(294)m	35%
Lease payments	£(372)m	£(363)m	2%
Change in working capital	£(404)m	£(497)m	(19)%
Change in other	£201m	£54m	n/m
Cash available for investment and distribution	£2,667m	£2,710m	(2)%
Cash capital expenditure	£(2,063)m	£(1,736)m	19%
Normalised free cash flow²	£604m	£974m	(38)%
Refund on acquisition of spectrum	-	£21m	n/m
Net cash flow from specific items	£67m	£(277)m	n/m
Reported free cash flow	£671m	£718m	(7)%

¹ before specific items

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

H1 2019/20 results – capex increase from FTTP and core spend

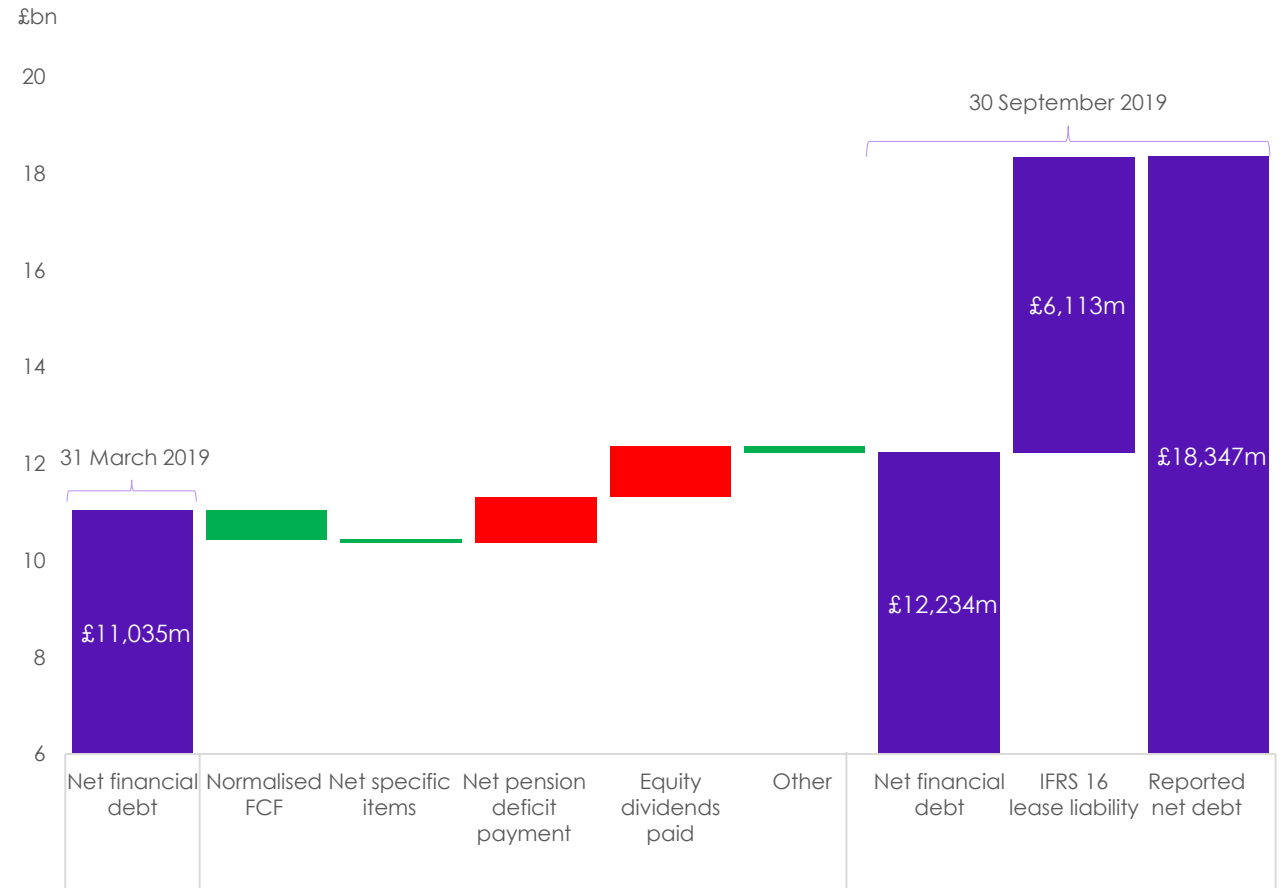
- H1 2019/20 reported capex of £1,882m, increase driven primarily by:
 - incremental FTTP programme spend
 - increased core network spend
 - VDSL¹ and Ethernet connections volumes
- Programmes scaling back over next 2-3 years create headroom to fund increased FTTP build
- Increasing network investments beyond current plans will require gross increase in annual capex



¹Very High Speed Digital Subscriber Line

Net debt impacted by IFRS 16 lease liabilities

- Ample liquidity: £4.2bn cash and current investments and £2.1bn undrawn committed facilities
- Raised c.£1.3bn through 6 year and 10 year Euro Bond issue
- Targeting BBB+ credit rating through the cycle:
 - currently BBB or equivalent, stable outlook
 - aim to maintain financial flexibility
- Smooth, long dated maturity profile



IAS 19 pension deficit lower due to £1.26bn deficit contribution

- IAS 19 deficit down from £6.0bn at 31 March 2019 to £5.1bn (net of tax) at 30 September 2019:
 - primarily driven by £1.26bn of scheduled deficit contributions over the period
 - asset growth offset by changes in assumptions used to value liabilities
 - implied real discount rate is negative 1.26% - a historic quarter end low
- In September 2019, the Government and the UK Statistics Authority announced potential changes to the calculation of the Retail Price Index:
 - uncertainty around future expectations of RPI and CPI and hence measurement of pension liabilities at 30 September
 - all the assumptions, including those for inflation, will be reviewed in detail at 31 March 2020



2019/20 financial outlook unchanged

Change in adjusted revenue ¹	c.(2)%
Adjusted EBITDA ¹	£7.9bn - £8.0bn
Capital Expenditure (excluding BDUK gainshare deferral)	£3.7bn - £3.9bn
Normalised free cash flow ²	£1.9bn - £2.1bn
Dividend per share	Unchanged

¹ before specific items

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

Philip Jansen
Chief Executive

Building a better BT for the future

Need to be bolder, smarter, and faster

Unprecedented launch of new products, services, and skills programmes to help create a better-connected and more-competitive Britain

Focus on value-for-money converged connectivity and services, with actions in the second quarter demonstrating continued positive progress against strategic pillars

Prepared to act decisively to maintain our customer bases

2019/20 financial outlook unchanged

