



BT Group plc Q3 2017/18 results

2 February 2018

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 2017/18 including revenue, EBITDA, free cash flow and progressive dividends; Openreach's acceleration of its FTTP programme; and our investment in the roll out of 4G.

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: material adverse changes in economic conditions in the markets served by BT whether as a result of the uncertainties arising from the UK's exit from the EU or otherwise; future regulatory and legal actions, decisions, outcomes of appeal and conditions or requirements in BT's operating areas, including the outcome of Ofcom's strategic review of digital communications in the UK, and the implementation of the DCR commitments, as well as competition from others; consultations and market reviews including the outcome of Ofcom's reviews of the Wholesale Local Access, Wholesale Broadband Access and Business Connectivity markets and forthcoming spectrum auctions; selection by BT and its customer facing units of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs, or impact on customer service; developments in the convergence of technologies; external threats to cyber security, data or resilience; political and geo-political risks; the anticipated benefits and advantages of new technologies, products and services not being realised, including the proposed investment in our FTTP broadband network; the timing of entry and profitability of BT in certain markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the anticipated benefits, synergies and cost savings of the EE integration not being delivered; the improvements to the control environment proposed following the investigations into BT's Italian business not being implemented successfully, effectively or timeously across the Group; the outcome of the BTPS triennial valuation and discussions on the pensions review; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Gavin Patterson
Group Chief Executive

Q3 headlines – delivering against our strategy



- Q3 results broadly in line with our expectations – reiterating full year guidance



- Improving customer experience



- Investing further in FTTP and launched ultrafast retail products



- TV deal agreed with Sky



- Ongoing engagement with Pension Trustee, scheme members and unions



- Cost transformation programmes on track

Improving performance for all stakeholders

Q3 financial summary

	Q3 2017/18	Q3 2016/17	Change
Revenue¹	£5,979m	£6,126m	(2)%
– underlying ex transit ²			(1.5)%
EBITDA¹	£1,826m	£1,870m	(2)%
Capex	£878m	£852m	3%
Normalised free cash flow³	£702m	£606m	up £96m

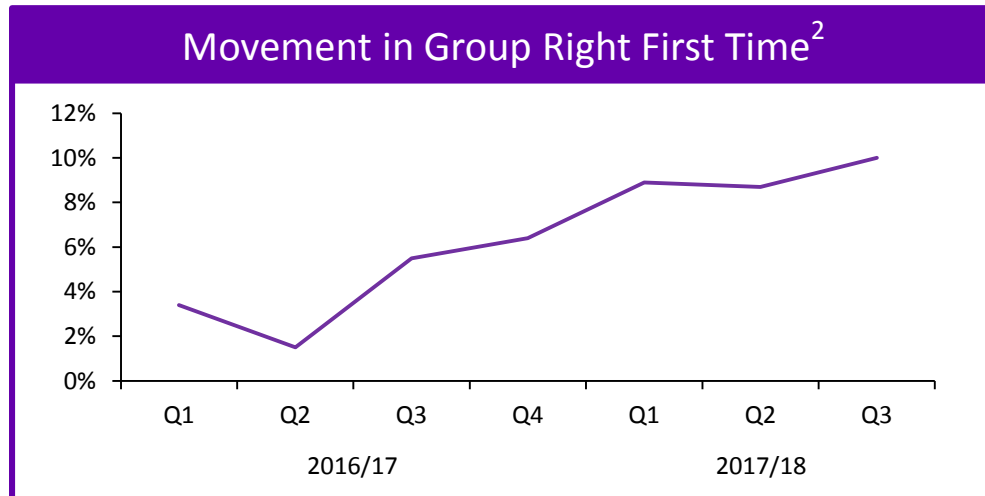
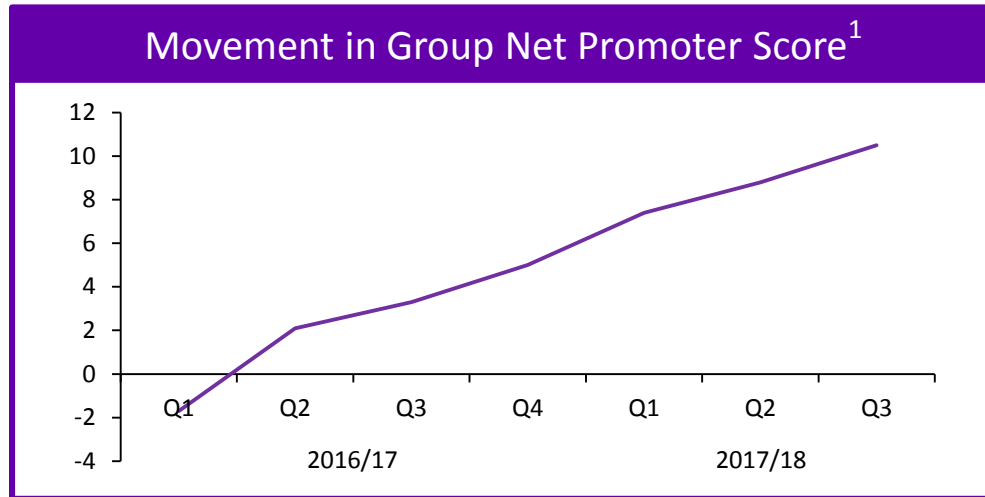
2017/18 financial outlook unchanged

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

Progress with strategy - customer experience



- Group NPS and RFT continue to improve
- Progress in Openreach
 - copper network faults down 4.1%
 - ahead on all 60 copper minimum service levels
 - on-time repair performance remains over 80%
- Improving customer service
 - service calls to our contact centres down 8% YoY
 - increasing use of digital channels such as My BT and My EE
 - average BT Consumer call waiting time down to 58 seconds
- Ofcom complaints – down 31% YoY for BT Consumer broadband
- Institute of Customer Service – in top 20 most improved organisations for customer satisfaction in 2017

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

Regulation – constructive engagement

WLA¹

- Investments need to earn an acceptable return
- Need to reflect costs of increased service levels
- Offset by efficiency gains

BCMR²

- Dark fibre alternative, OSA³ Filter Connect, launching in April
- Continue to believe dark fibre remedy not required

Spectrum

- Court of Appeal challenge successful on 1800MHz licence fees
- Investing to maintain the best mobile experience

USO⁴ & future infrastructure

- Will work with Government to deliver USO – awaiting details on approach to delivery
- Welcome Government ‘Call for Evidence’ – opportunity to shape future of our industry

¹ Wholesale Local Access

² Business Connectivity Market Review

³ Optical Spectrum Access

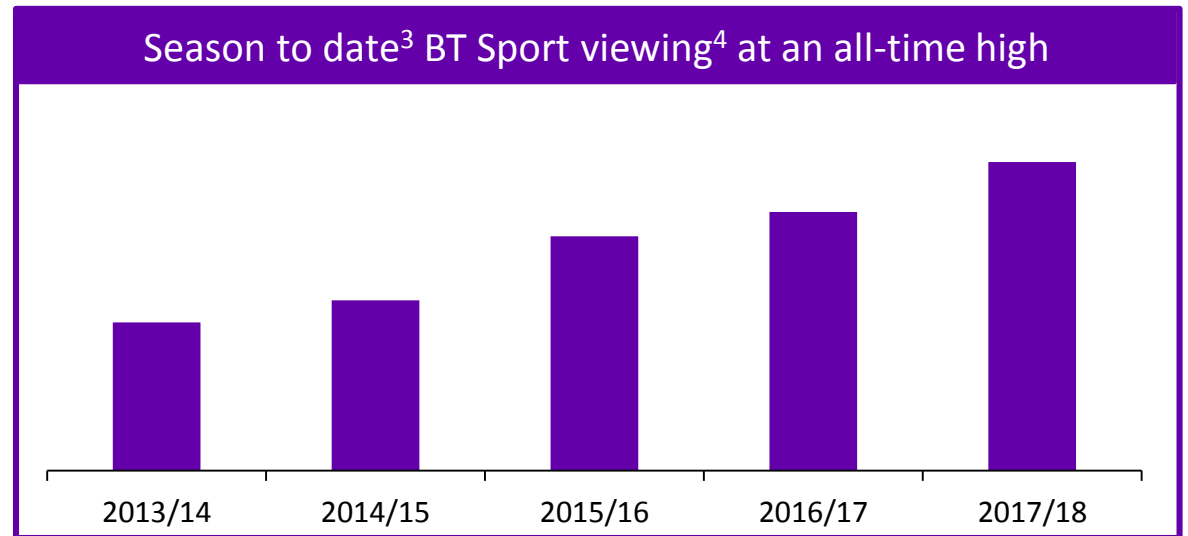
⁴ Universal Service Obligation

Customer Facing Units update

BT Consumer – Strong BT Sport viewing and premium TV content deal agreed

- Revenue flat
 - increased ARPU¹ offset by voice line losses
 - 12-month rolling ARPU up 4.8%
 - RGUs² per customer up 3.1%
- EBITDA down 4%, reflecting investment in customer experience and broadband speed upgrades
- Superfast growth, ultrafast product launches
 - 152Mbps and 314Mbps
 - with minimum speed guarantees of 100Mbps
 - 59% of broadband customers now on fibre
- TV agreement with Sky
 - launch in early 2019
- BT Sport
 - BT Sport viewing⁴ up 23% YoY
 - All customers⁵ now pay for BT Sport

	Q3 2017/18	Q3 2016/17	Change
Revenue	£1,261m	£1,262m	-
EBITDA	£250m	£260m	(4)%
Capex	£66m	£54m	22%



¹ Average Revenue Per User

² Revenue Generating Units

³ average weekly viewing from start of football season

⁴ ex digital

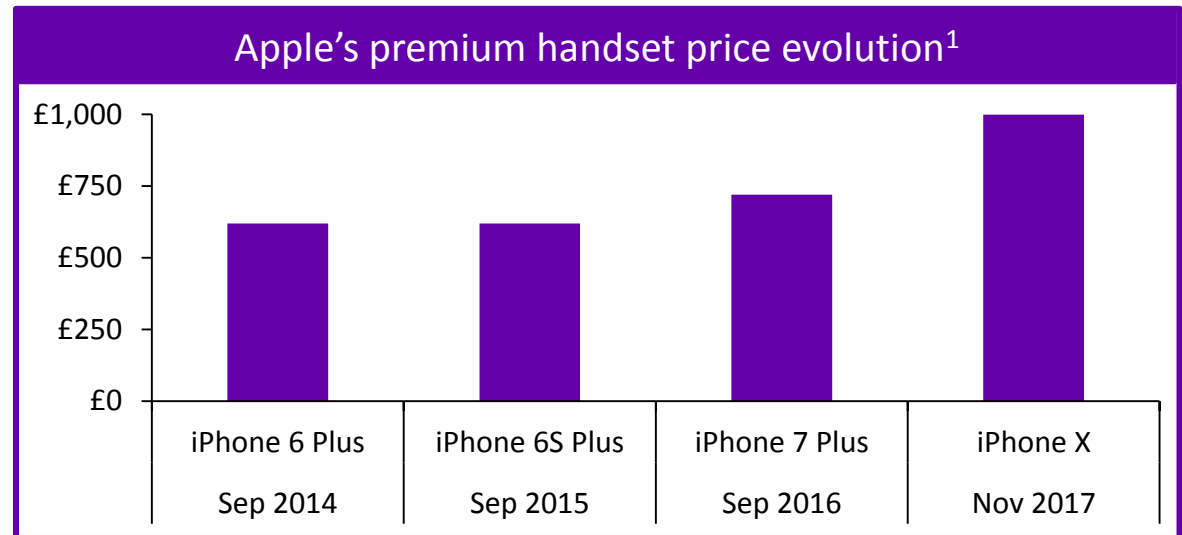
⁵ excluding employees



EE – EBITDA down 6%, driven by high customer investment costs

- Revenue up 4%
 - postpaid up 6%; prepaid down 15%
 - Group postpaid mobile ARPU down 1.9%
 - Group churn 1.2%
- Group mobile base 29.8m
 - 235,000 postpaid adds, group base now 17.5m
 - 299,000 prepaid decline, group base now 6.0m
- EBITDA down 6%
 - reflecting investment in premium handsets and smart watches
 - expect strong recovery in Q4
- Investing to improve customer experience
 - 4G geographic coverage now 90% of UK landmass
 - network coverage and performance recognised in latest RootMetrics reports

	Q3 2017/18	Q3 2016/17	Change
Revenue	£1,357m	£1,311m	4%
EBITDA	£259m	£277m	(6)%
Capex	£122m	£153m	(20)%



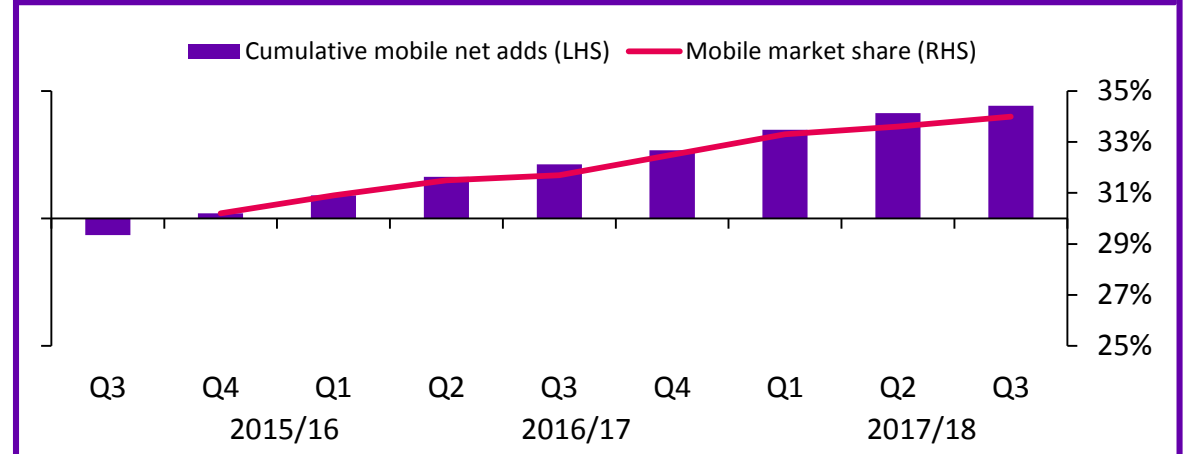
¹ Apple selling price of smallest capacity premium model at launch

Business and Public Sector – steady progress

- Underlying revenue ex transit down 6%
 - declines in traditional voice and lower equipment sales, partially offset by continued growth in mobile
 - Progress on IP voice – base up 55% YoY
 - SME down 3%, Corporate down 7%, Public Sector and Major Business down 6%
- EBITDA down 8%
 - reflecting reduction in revenue and strong prior year comparator
- Order intake down 22%
 - 12-month rolling up 12%

	Q3 2017/18	Q3 2016/17	Change
Revenue	£1,125m	£1,190m	(5)%
– u/l ex transit			(6)%
EBITDA	£362m	£393m	(8)%
Capex	£69m	£74m	(7)%

Continued growth in BPS mobile and mobile market share¹

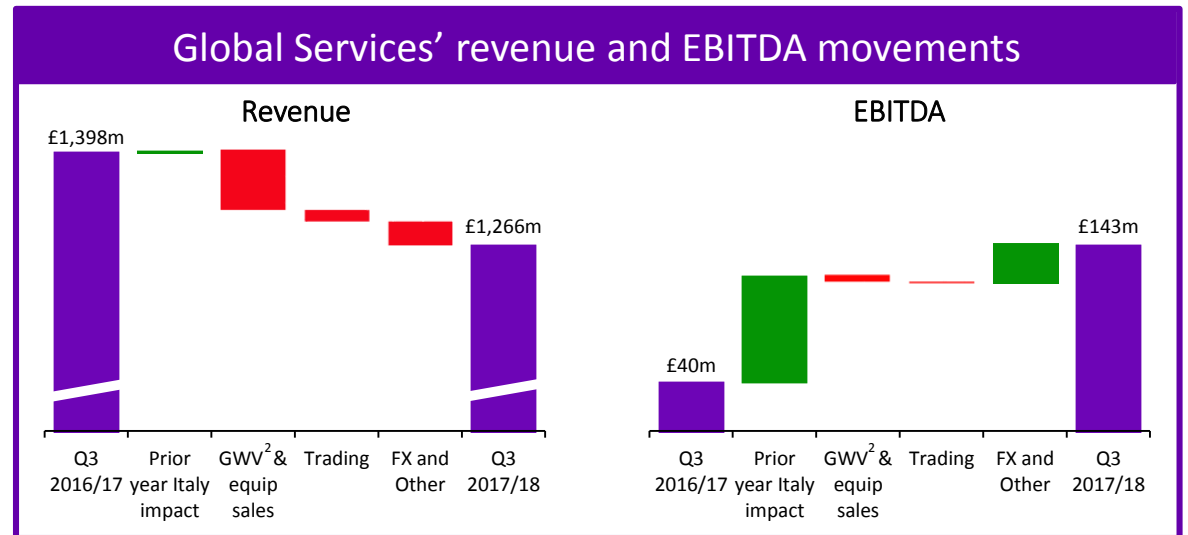


¹ Source: BT, IDC

Global Services – managed declines in low margin business

- Underlying revenue ex transit down 6%
 - managed decline in low-margin business
- Restructuring continues
 - new digital products launched with key suppliers
 - progress update at Q4 2017/18 results
- Order intake down 11% to £1.1bn
 - 12-month rolling down 25%
 - reflecting ongoing challenging market conditions
- Strong growth in security services
 - increasingly important as customers move away from dedicated MPLS¹ to more hybrid networks
- EBITDA up £103m
 - reflecting one-off items and prior year Italy impact; broadly in line excluding these items

	Q3 2017/18	Q3 2016/17	Change
Revenue – u/l ex transit	£1,266m	£1,398m	(9)% (6)%
EBITDA	£143m	£40m	258%
Capex	£64m	£69m	(7)%



¹ Multi-Protocol Label Switching

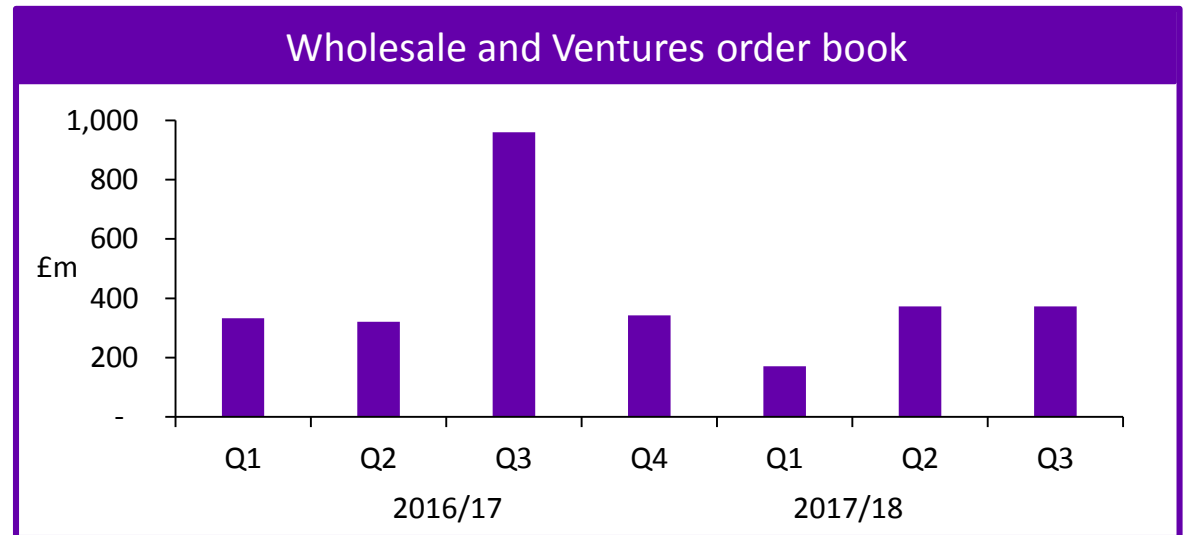
² Global Wholesale Voice



Wholesale and Ventures – stronger Ventures revenue

- Underlying revenue ex transit down 4%
 - Managed Solutions down 8%; Data and Broadband down 8%; Voice down 3%
 - Mobile revenue down 5% reflecting specific MVNO¹ contractual commitments last year
 - Ventures revenue up 9% - good growth in bulk messaging and Fleet Solutions
- EBITDA down 10%
 - reflecting continued legacy decline and revenue mix
- Order intake £372m, down 61%
 - 12-month rolling down 38%
 - reflecting two large contracts in prior year
- 86 InLinkUK units live at end of Q3
 - providing free calls, wi-fi and other services
 - generating advertising revenue

	Q3 2017/18	Q3 2016/17	Change
Revenue	£506m	£528m	(4)%
– u/l ex transit			(4)%
EBITDA	£189m	£211m	(10)%
Capex	£54m	£53m	2%

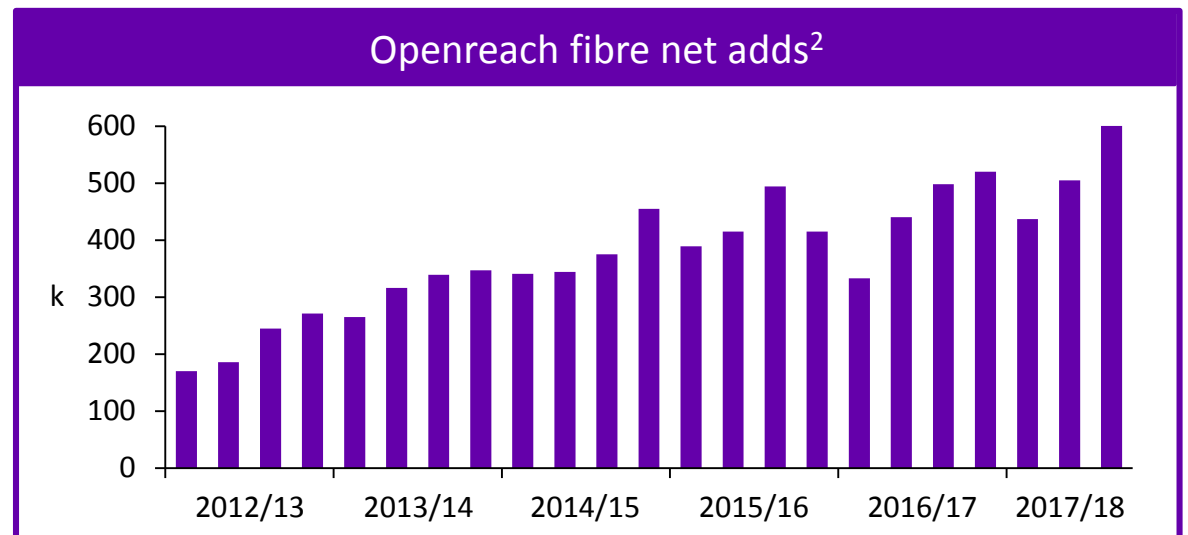


¹ Mobile Virtual Network Operator

Openreach – continued strong fibre growth

- Revenue flat
 - continued strong growth in fibre broadband, up 23%
- EBITDA down 5%
 - increased business rates and higher pension charge
- Normalised free cash flow down 8%
 - increased opex and capex
- Fibre broadband now available to c.27.4m¹ premises
 - record 600,000 fibre broadband net additions²
 - 9.2m premises connected
- Ahead on all 60 copper minimum service levels
- 4.1% reduction year to date in copper network faults
- Targeting 3m premises with FTTP by the end of 2020
 - first eight cities announced

	Q3 2017/18	Q3 2016/17	Change
Revenue	£1,286m	£1,284m	-
EBITDA	£641m	£676m	(5)%
Capex	£477m	£409m	17%



¹ Using latest Ordnance Survey addressing product

² Including BT Northern Ireland

Q3 summary – delivering against our strategy



- Q3 results broadly in line with our expectations – reiterating full year guidance



- Improving customer experience



- Investing further in FTTP and launched ultrafast retail products



- TV deal agreed with Sky



- Ongoing engagement with Pension Trustee, scheme members and unions



- Cost transformation programmes on track

Improving performance for all stakeholders

Q & A



BT Group plc Q3 2017/18 results

2 February 2018

Appendix

Q3 2017/18 results - financial overview

	Q3 2017/18	Q3 2016/17	Change
Revenue¹	£5,979m	£6,126m	(2)%
– underlying ex transit ²			(1.5)%
Operating costs³	£(4,153)m	£(4,256)m	(2)%
EBITDA¹	£1,826m	£1,870m	(2)%

¹ before specific items

² before specific items, foreign exchange movements and disposals

³ before specific items and depreciation and amortisation

Q3 2017/18 results - financial overview

	Q3 2017/18	Q3 2016/17	Change
Adjusted EBITDA¹	£1,826m	£1,870m	(2)%
Depreciation and amortisation	£(868)m	£(895)m	3%
Net finance expense ¹	£(139)m	£(149)m	7%
Share of post tax loss of associates and joint ventures	£(1)	-	n/m
Tax ¹	£(176)m	£(171)m	(3)%
Profit after tax¹	£642m	£655m	(2)%
Specific items	£(141)m	£(281)m	50%
Profit for the period	£501m	£374m	34%

¹ before specific items
n/m = not meaningful

Q3 2017/18 results - cash flow

	Q3 2017/18 ¹	Q3 2016/17 ¹	Change
Adjusted EBITDA	£1,826m	£1,870m	(2)%
Tax paid exc. cash tax benefit of pension deficit payments	£(177)m	£(175)m	(1)%
Change in working capital	£79m	£(152)m	n/m
Change in provisions	£(40)m	-	n/m
Net finance paid	£(143)m	£(186)m	23%
Cash available for investment and distribution	£1,545m	£1,357m	14%
Capital expenditure	£(843)m	£(751)m	(12)%
Normalised free cash flow²	£702m	£606m	16%
Net debt	£8,923m		

¹ before specific items

² before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

n/m = not meaningful

2017/18 financial outlook unchanged

Underlying revenue¹ ex transit

Broadly flat

EBITDA²

£7.5bn - £7.6bn

Normalised free cash flow³

£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