



BT Group plc

Q3 2015/16 results and acquisition of EE

1 February 2016



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Gavin Patterson, Chief Executive



Overview



- ▶ Strong set of Q3 numbers across the board
 - 4.7% growth in our main revenue¹ measure; best for more than 7 years



- ▶ Very good operational performance
 - Consumer grew line base for first time in more than a decade
 - strongest-ever Openreach fibre take-up



- ▶ 2015/16 revenue¹ outlook refined
 - now expect 1-2% growth

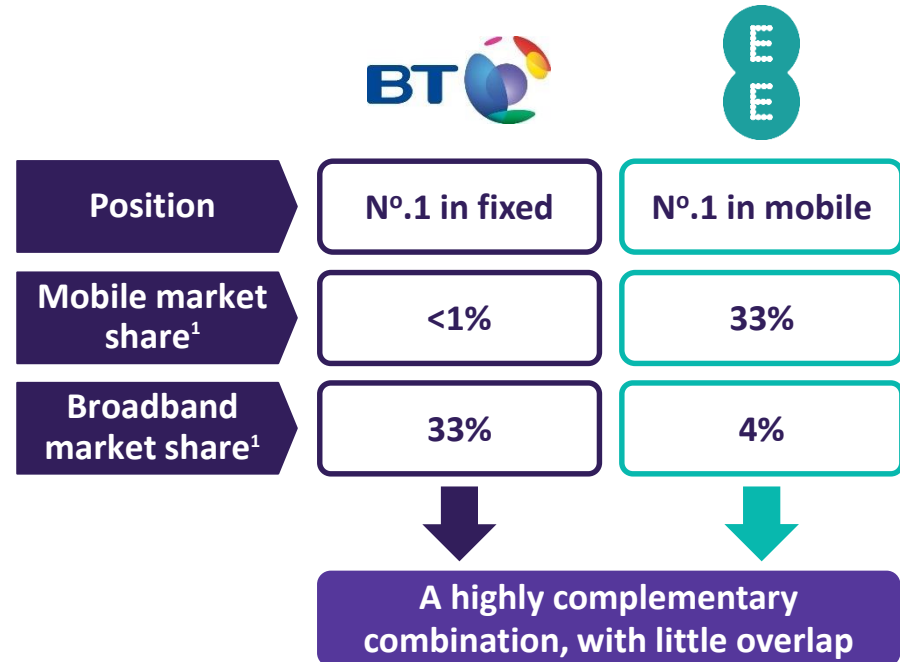


- ▶ Acquisition of EE completed
 - unconditional clearance from CMA
 - creating a new UK-centric division for Business and Public Sector

¹ underlying revenue excluding transit

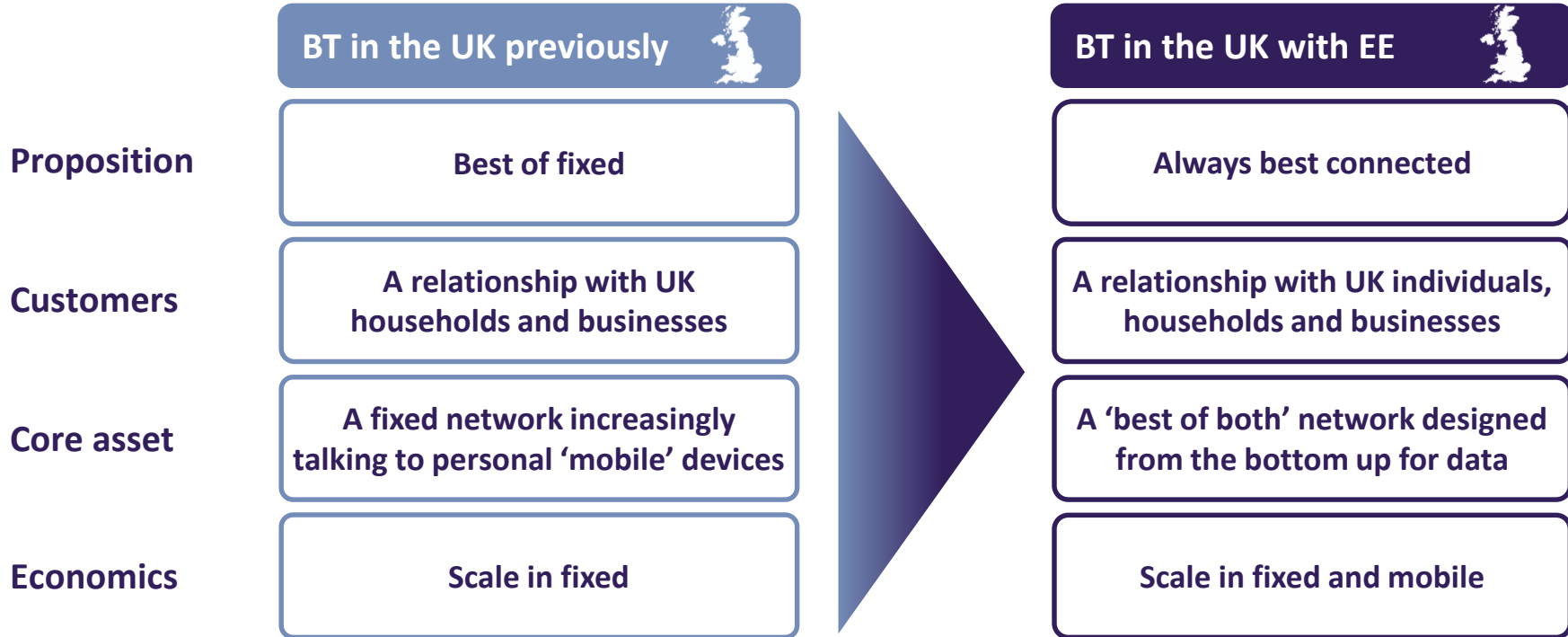
EE acquisition completed 29 January

- ▶ We've bought a great business
- ▶ Creating the UK's leading communications provider
- ▶ A digital champion for the UK
 - providing high levels of investment
 - driving innovation in a highly competitive market
 - combining the power of fibre broadband with the convenience of leading-edge mobile services



¹ Source: Company reporting and Ofcom subscriber data

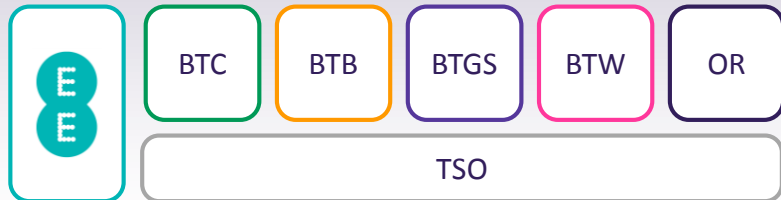
EE strengthens our future



Opportunity to generate considerable customer and shareholder value

Next steps to unlocking value and synergies

1 February organisation



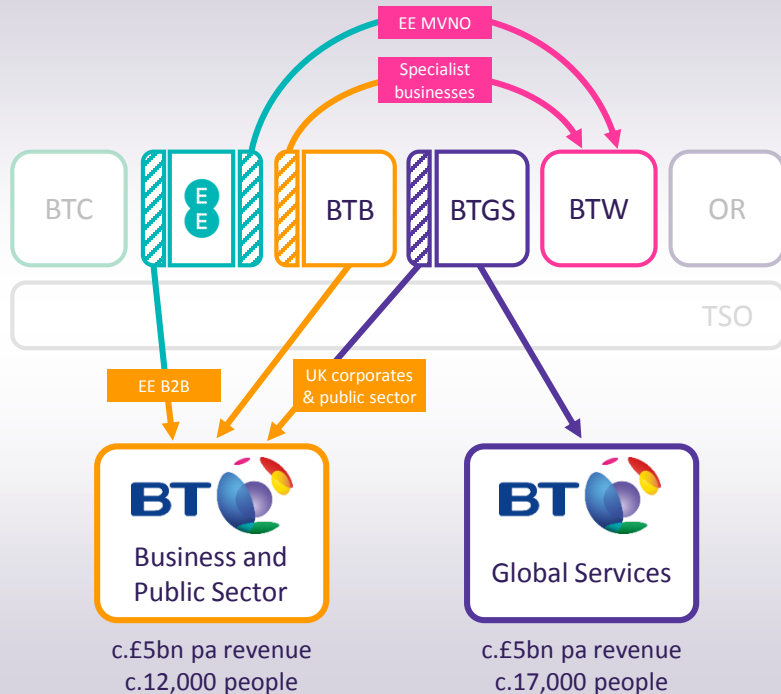
- ▶ EE and BT brands retained for mobile consumers
- ▶ New EE CEO Marc Allera to join BT Operating Committee
- ▶ DT CEO Tim Höttges on BT board

Next steps

- ▶ Integration project management office to manage overall process
- ▶ BT board integration committee will track progress
- ▶ Begin transition to future operating model
 - alignment of corporate functions
 - new, UK-centric Business and Public Sector division

New UK-centric division for Business and Public Sector

1 April organisation



Main changes

- ▶ A UK-centric organisation, combining three UK businesses into one, aiming to provide:
 - a more regional and focused approach to serving the UK public sector
 - seamless, converged products across fixed, mobile and IT services
 - better alignment of resources to improve customer service and delivery
- ▶ Allows Global Services to sharpen focus on global and international customers
- ▶ EE's MVNO operations and specialist businesses in BT Business (eg BT Fleet) moving to Wholesale

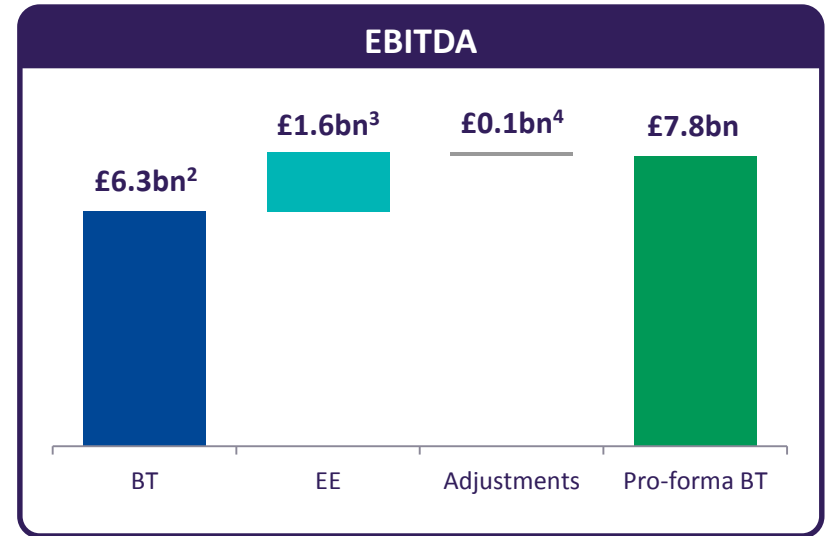
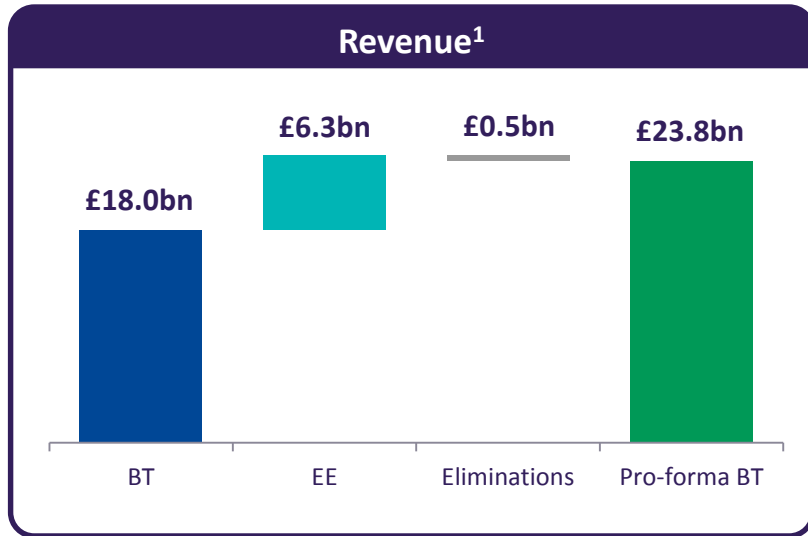


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Tony Chanmugam, Group Finance Director



BT & EE pro-forma financials



¹ Extracted from Part 13 of Prospectus (data is for the year ended 31 March 2015 for BT and the year ended 31 December 2014 for EE)

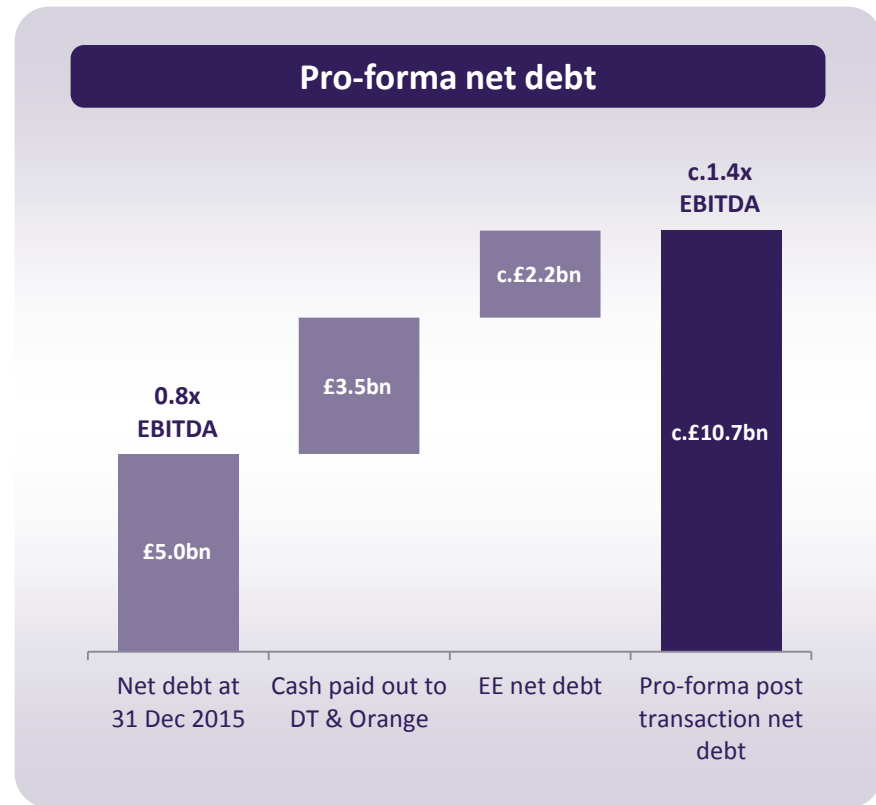
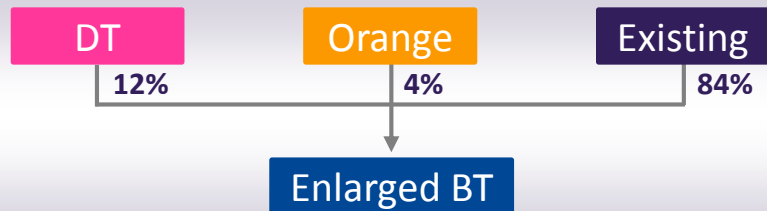
² BT's Adjusted EBITDA for the year ended 31 March 2015

³ EE's Adjusted EBITDA for the year ended 31 December 2014. EE's Adjusted EBITDA is before management and brand fees payable to its shareholders, one-off items and restructuring costs

⁴ Includes: accounting policy adjustments, brand fees and differences in treatment of specific items. Before any consolidation adjustments (eg purchase price accounting and intercompany eliminations)

EE financing

- ▶ 1,595m new shares issued to DT and Orange
 - results in 9,968m shares now in issue
- ▶ Cash consideration of £3.5bn
 - from £1bn equity placing and committed acquisition facility
 - final cash consideration subject to customary post-completion adjustments
- ▶ c.£2.2bn of net debt within EE



Confident of EE synergies

c.£360m

- ▶ Total opex and capex synergies in 4th full year post completion

c.£3.0bn







- ▶ Total NPV of opex and capex synergies post integration costs

c.£1.6bn

- ▶ Total NPV of revenue synergies

- ▶ Integration planning over last 6 months
 - >50 operational experts from both BT and EE
 - 15 work streams, eg call centres and finance
 - plus group-wide programmes, eg procurement, people and culture
- ▶ Leaders from BT and EE involved to provide both perspectives and get full buy-in
- ▶ Using same forensic methodology used for cost transformation

Strong Q3 results across the board

		YoY change	
Revenue¹	£4,594m	3%	
- underlying ² ex transit		4.7%	
EBITDA¹	£1,613m	3%	
EPS¹	9.0p	13%	
Normalised free cash flow³	£904m	flat	
Net debt	£5,021m	down £1,181m	

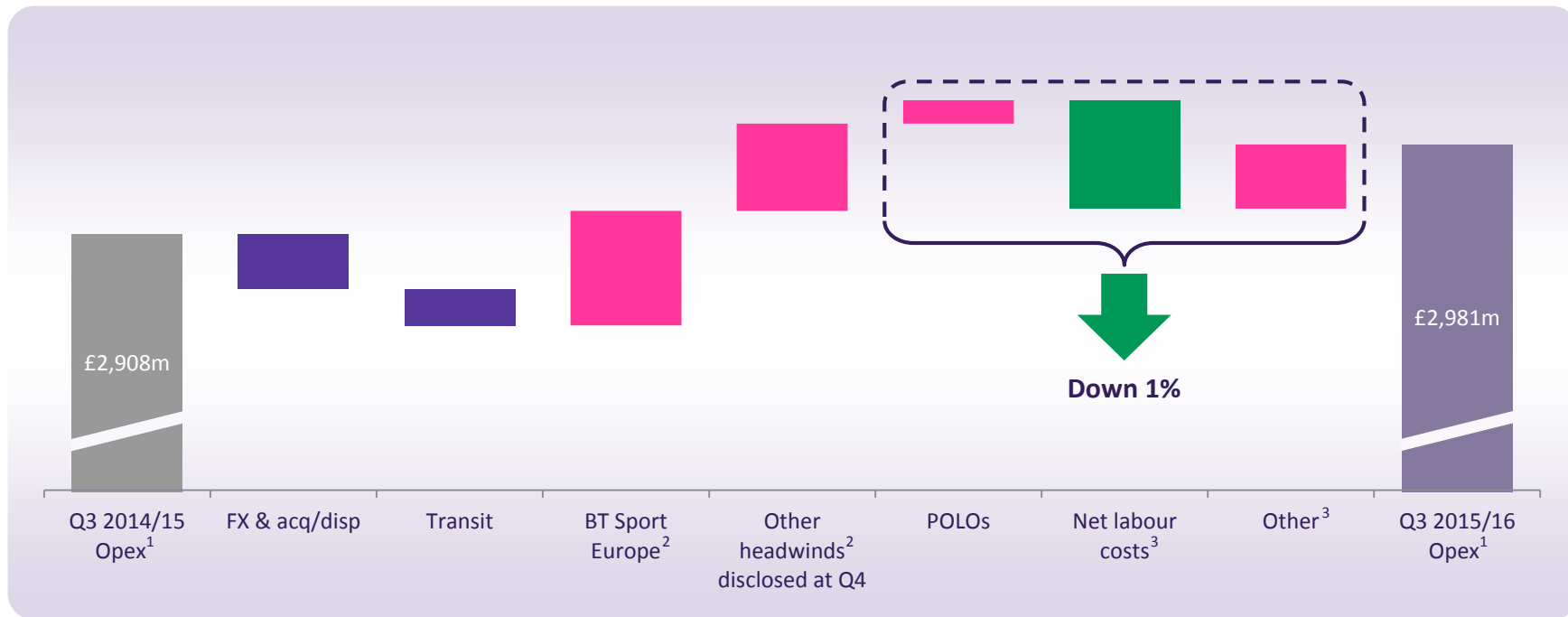
¹ before specific items

² excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

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

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Operating costs reflect investments for growth



Underlying opex¹ ex transit up 5%; down 1% ex headwinds disclosed at Q4

¹ before specific items and depreciation and amortisation

² headwinds disclosed at Q4: investment in BT Sport Europe, higher pensions operating charge, higher leaver costs and no benefit this year from the sale of redundant copper

³ excluding impact of headwinds

Cost transformation examples



▶ Pan BT – network planning and engineering support

- consolidate >500 locations down to 31 larger centres of excellence – run more efficiently
- simplify systems, increase automation
- focus on managers' role in coaching teams to be highly productive and effective
- on track for >£100m savings, as well as speeding up processes and improving service



CPE

▶ Global Services and BT Business - customer premises equipment (CPE)

- consolidating supplier base; centralising ordering in centre of excellence
- maximise discounts and rebates from suppliers
- refurbish and re-use CPE
- c.£50m opportunity



▶ Pan BT – travel and subsistence

- expect costs for 2015/16 to reduce by £12m to £75m
- compares with £102m two years ago

Still >£1bn of gross cost saving opportunities

2015/16 revenue outlook¹ updated

Underlying revenue² ex transit

1-2% growth

EBITDA³

Modest growth

Normalised free cash flow⁴

Around £2.8bn

Dividend per share

Up 10-15%

¹ standalone BT, excluding any impact of EE acquisition

² excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

³ before specific items

⁴ before specific items, pension deficit payments and the cash tax benefit of pension deficit payments



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Gavin Patterson, Chief Executive



BT Global Services – improved cash generation

- ▶ Underlying revenue ex transit up 2%
 - UK up 2% helped by a large equipment sale
 - Continental Europe up 6%, IPX particularly strong
- ▶ EBITDA up 9% ex FX
 - continue to expect H2 to grow YoY
- ▶ Operating cash flow improved
 - 12-month performance best on record
- ▶ Product developments
 - improving cloud capabilities
 - expanding BT MeetMe with Dolby Voice into LatAm
 - cyber security
- ▶ Order intake down 19%, 12-month rolling up 1%
 - strong mix of orders



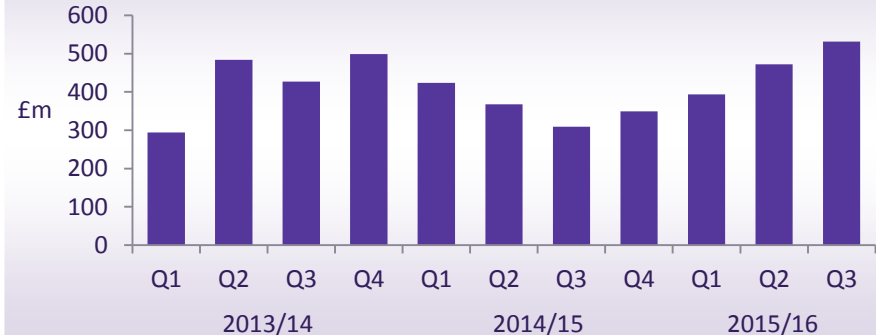
Atos



COMMERZBANK

	Q3 2015/16	YoY change
Revenue	£1,675m	(1)%
- u/l ex transit		2%
EBITDA	£276m	6%

12-month rolling operating cash flow

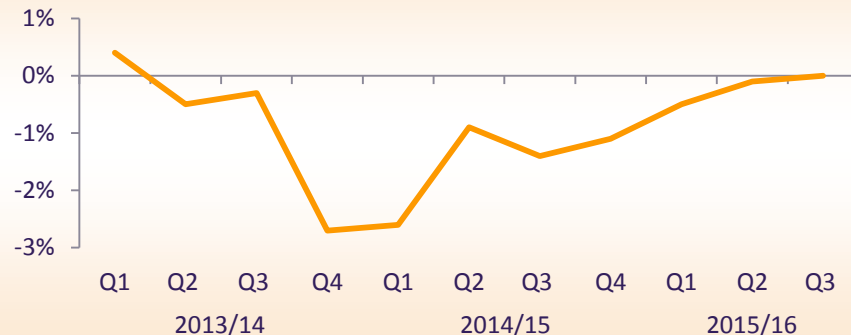


BT Business – headwinds easing

- ▶ Underlying revenue ex transit flat
 - voice down 3%
 - Ireland up 4%
 - data & networking up 3%
- ▶ Business fibre broadband net adds up 26%
- ▶ IP lines grew 57%
 - helping to offset decline in PSTN lines
 - BT Cloud Voice and BT Cloud Phone performing well
- ▶ Underlying operating costs ex transit down 1%
- ▶ EBITDA up 1%
- ▶ Good operating cash flow, up 9%
 - lower capex and working capital timing
- ▶ Order intake down 5%
 - reflects strong performance in Ireland in prior year
 - 12-month rolling down 1%

	Q3 2015/16	YoY change
Revenue	£779m	(1)%
- u/l ex transit		flat
EBITDA	£268m	1%

YoY change in underlying revenue ex transit



BT Consumer – best revenue growth on record

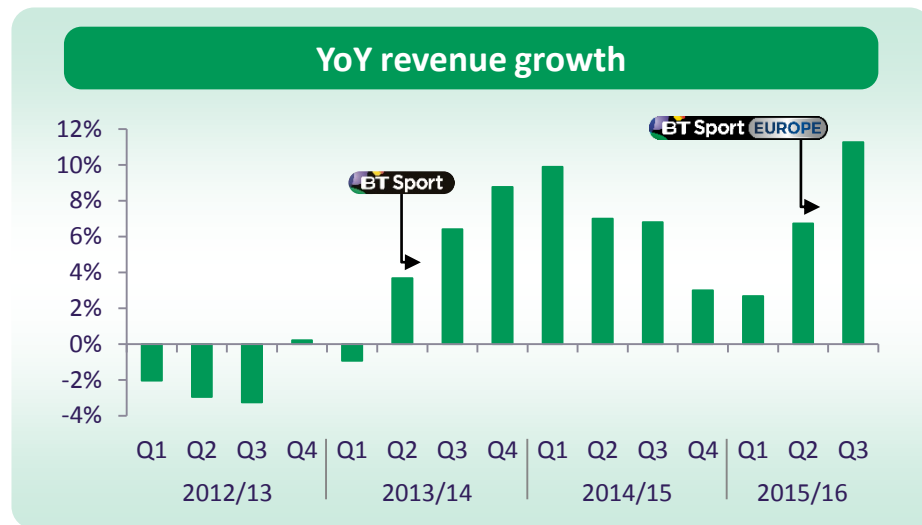
- ▶ Revenue up 11%
 - broadband and TV up 23%
 - helped by BT Mobile, now >300,000 customers

- ▶ ARPU up 7% to £439
 - pick-up in growth rate since start of year

- ▶ EBITDA up 8%
 - despite investment in BT Sport Europe and BT Mobile
 - and ongoing £80m investment in customer service; creating 1,000 more jobs

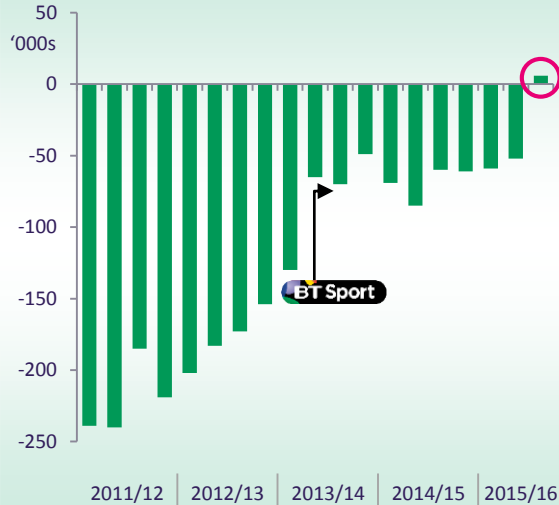
- ▶ Operating cash flow of £348m, up 27%
 - higher EBITDA
 - benefitting from phasing of UEFA rights payments

	Q3 2015/16	YoY change
Revenue	£1,205m	11%
EBITDA	£270m	8%



BT Consumer – strong across all KPIs

Change in Consumer lines

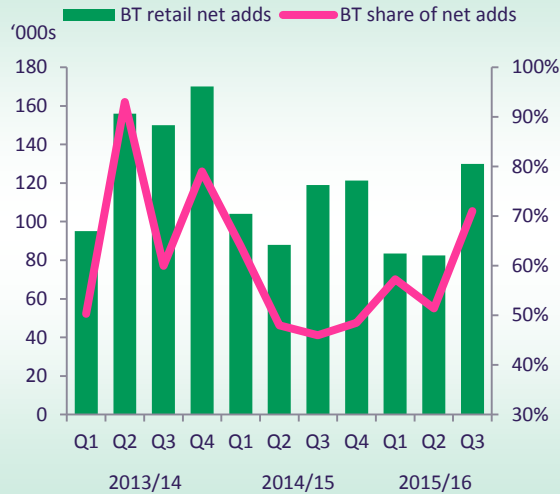


- ▶ Consumer lines up 6,000
 - best performance in over a decade

¹ includes business customers

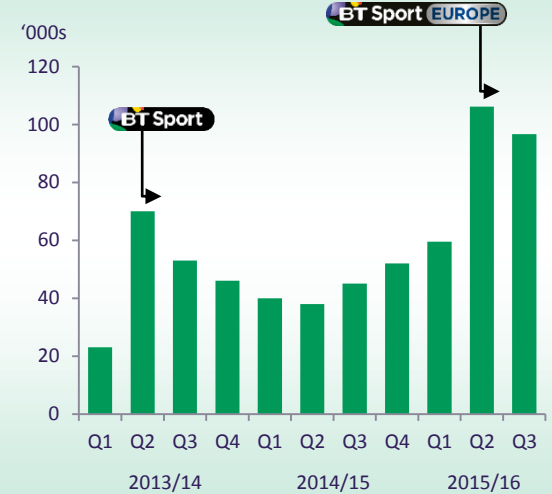
² DSL & fibre

Retail broadband net adds



- ▶ Strong broadband performance
 - 130,000 retail broadband net adds¹, 71% of market² growth
 - 250,000 retail fibre net adds
 - 46% of all broadband customers on fibre

TV net adds



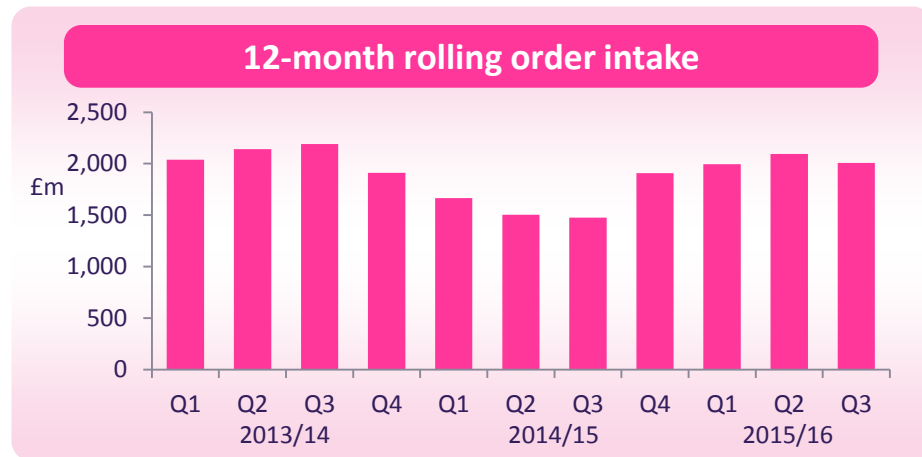
- ▶ 97,000 TV net adds
 - 1.4m TV customers
- ▶ Average BT Sport viewing up 46% YoY



BT Wholesale – strong growth in IP services

- ▶ Underlying revenue ex transit up 3%
 - Managed Solutions up 10%; driven by connections
 - good growth in IP services, up 21%; IPX and Ethernet growing strongly
- ▶ Underlying operating costs ex transit up 4%
 - higher volumes in IP services
 - partly offset by an 8% decline in SG&A costs
- ▶ EBITDA down 1%
- ▶ Operating cash flow up 5%
 - lower capex
- ▶ Order intake down 20%, 12-month rolling up 36%
 - improved mix of orders

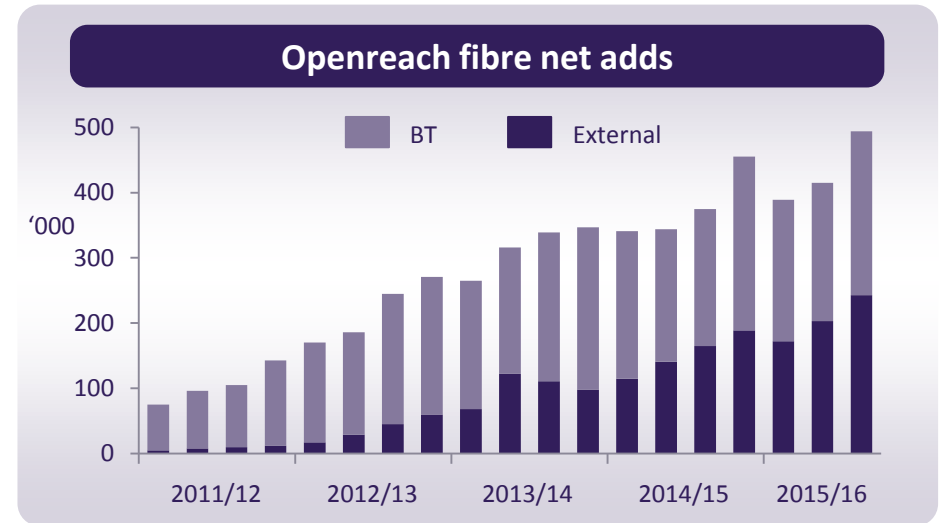
	Q3 2015/16	YoY change
Revenue	£527m	(1)%
- u/l ex transit		3%
EBITDA	£135m	(1)%



Openreach – record growth in fibre

- ▶ Revenue up 3%
 - 45% growth in fibre broadband
 - partly offset by c.£30m impact from regulation
- ▶ Operating costs up 2%
 - leaver costs £22m (Q3 2014/15: nil)
- ▶ EBITDA up 4%
- ▶ Capital expenditure up 7%
 - connecting new homes
 - connecting businesses with Ethernet
- ▶ Operating cash flow £419m, down 11%
 - working capital movements
- ▶ Fibre going from strength to strength
 - record 494,000 net connections, up 32%
 - external CPs accounted for half of net adds
 - c.5.5m premises connected, 22% of those passed

	Q3 2015/16	YoY change
Revenue	£1,294m	3%
EBITDA	£677m	4%

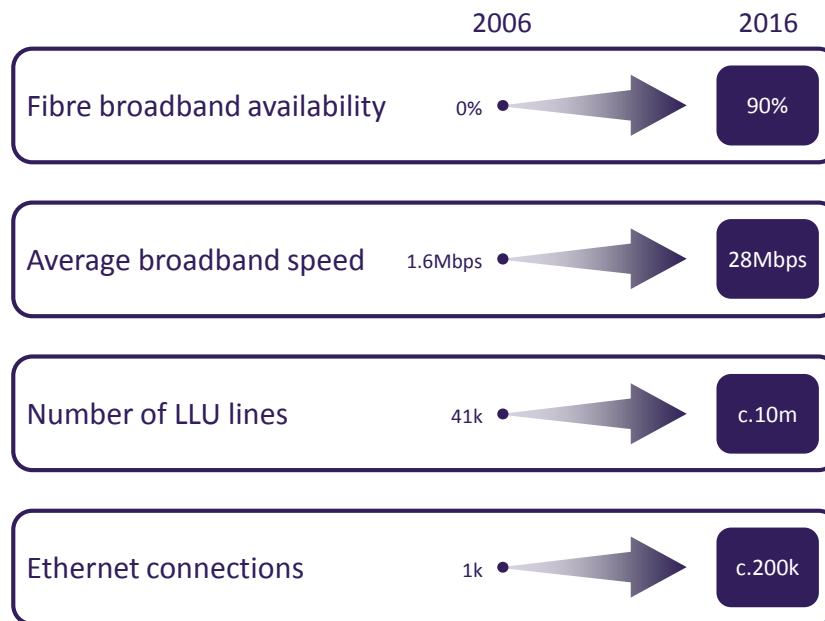


Ten years since Openreach was created

Continued investment in its networks

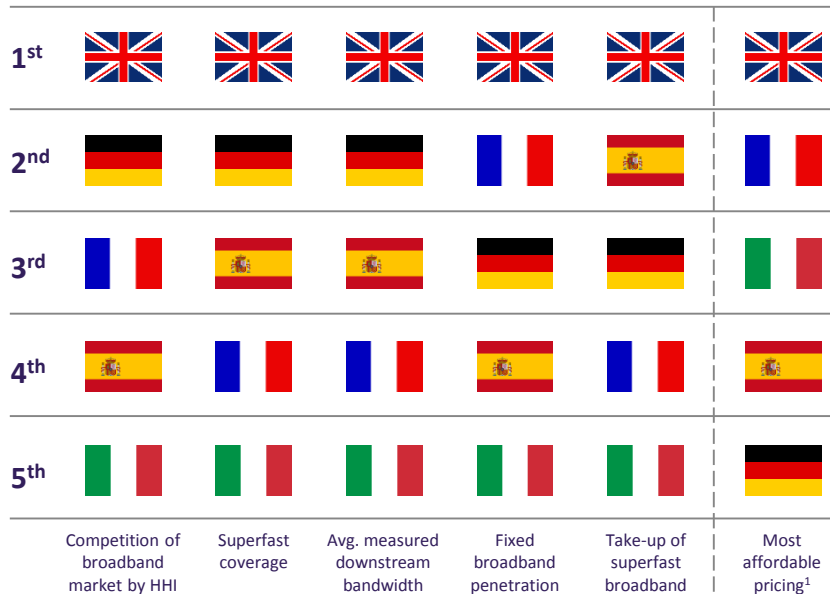
- ▶ £10.5bn capex in Openreach
 - capex up in 2014/15 and will grow again in 2015/16
- ▶ One of the fastest rollouts of fibre broadband in the world
- ▶ Supported by £0.5bn annual R&D spend
- ▶ Networks open with equivalent access for all

A decade of progress



Digital communications is a UK success story

No.1 of major European countries

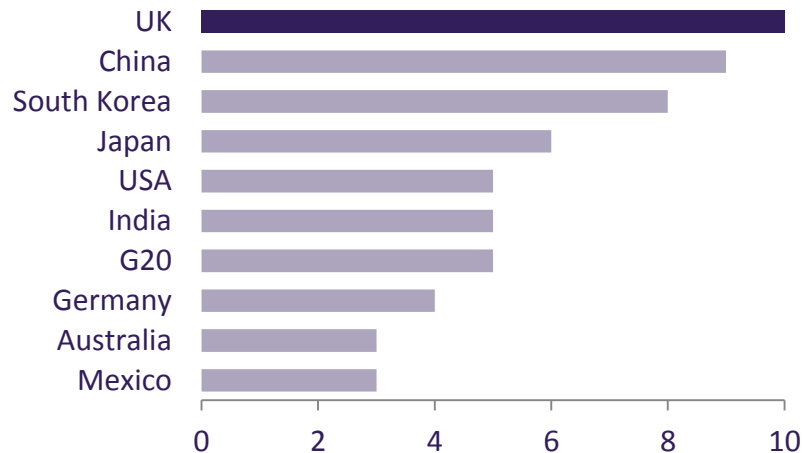


Source: Analysys Mason, International benchmarking report, September 2015

Source: Ofcom ICMR 2015

4th out of 167 countries (ITU Development Index)

% of GDP driven by internet (eGDP)



Source: BCG UK eGDP, May 2015

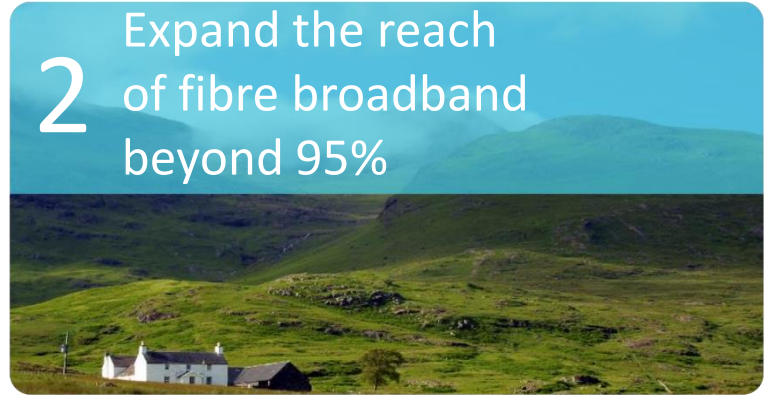
¹ 'Weighted average' bundled service pricing for a family household with multiple needs

Four pledges to support the UK's digital future

1 Deliver faster minimum broadband speeds



2 Expand the reach of fibre broadband beyond 95%



3 Take the UK from a Superfast to an Ultrafast nation



4 Raise the bar on service



Q3 summary

- ▶ Strong financial performance across the board
- ▶ Operational trends show our strategy is delivering
 - fibre, TV, sport and mobile
- ▶ Significant opportunities with EE
 - as the leading fixed-mobile player in the UK
 - with a new, UK-centric Business and Public Sector division
 - providing seamless, converged services wherever our customers are

Investing in a strong platform for growth



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Q&A





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Appendix



Income statement

£m	Q3 2015/16	YoY change	Key points
Revenue¹	4,594	3%	▶ despite £54m negative impact from FX and £31m reduction in transit revenue
- underlying ex transit		4.7%	▶ reflects growth in Global Services, Consumer, Wholesale and Openreach
EBITDA¹	1,613	3%	▶ increase reflects strong revenue performance
Operating profit¹	1,021	8%	▶ depreciation and amortisation down 4%
Profit before tax¹	928	14%	
EPS¹	9.0p	13%	▶ average number of shares in issue up 3% YoY
Specific items²	41	n/m	▶ mainly tax credit of £94m (change in UK corporation tax rate), partially offset by net interest expense on pensions of £55m

¹ before specific items

² net charge after tax

n/m = not meaningful

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Free cash flow

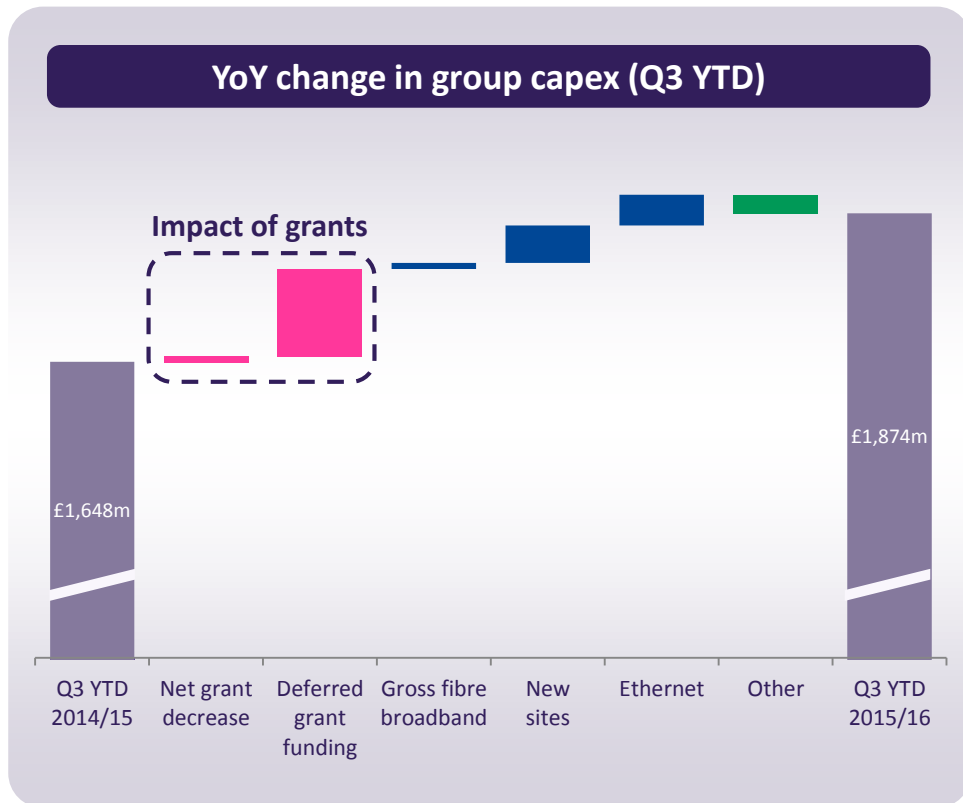
£m	Q3 2015/16	YoY change	Key points
EBITDA¹	1,613	46	
Capex	(589)	(21)	▶ connecting new homes, higher Ethernet volumes
Interest	(181)	2	
Tax ²	(142)	(72)	▶ cash tax last year benefitted from maturing employee share schemes
Working capital & other	203	41	
Normalised FCF	904	(4)	
Cash tax benefit of pension deficit payments	44	29	
Specific items	(18)	(22)	▶ mainly £10m restructuring costs and £4m EE acquisition-related costs
Reported FCF	930	3	

¹ before specific items

² before cash tax benefit of pension deficit payments

Capex

- ▶ Q3 capex £587m, down 2%
- ▶ Total of £179m fibre grant funding now deferred
 - reflects strong take-up
 - expect vast majority to be re-invested to improve reach and quality of network
- ▶ Q3 YTD capex up 6% excluding deferral
 - expansion of fibre network, connecting new sites, Ethernet provision
- ▶ Openreach capex to be higher in 2015/16 than 2014/15



Other financial information

▶ Pension

- lower deficit primarily reflects lower inflationary pension increases to be awarded in 2016

IAS 19, £bn	31 Dec 15	30 Sept 15
Liabilities – BTPS	(47.3)	(48.2)
Assets – BTPS	41.7	41.5
Other schemes	(0.3)	(0.3)
Deficit – gross of tax	(5.9)	(7.0)
Deficit – net of tax	(4.9)	(5.6)

▶ Share buyback

- £35m spent in Q3, £285m year to date
- continue to expect to spend c.£300m for the year