BT Group plc
H1 2018/19 results

1 November 2018

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 financial outlook for 2018/19 including revenue, EBITDA and free cash flow; capital expenditure; and our increasing network investment through Openreach's Fibre First programme, FTTP deployment, further 4G mobile network build and the proposed 5G launch.

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.

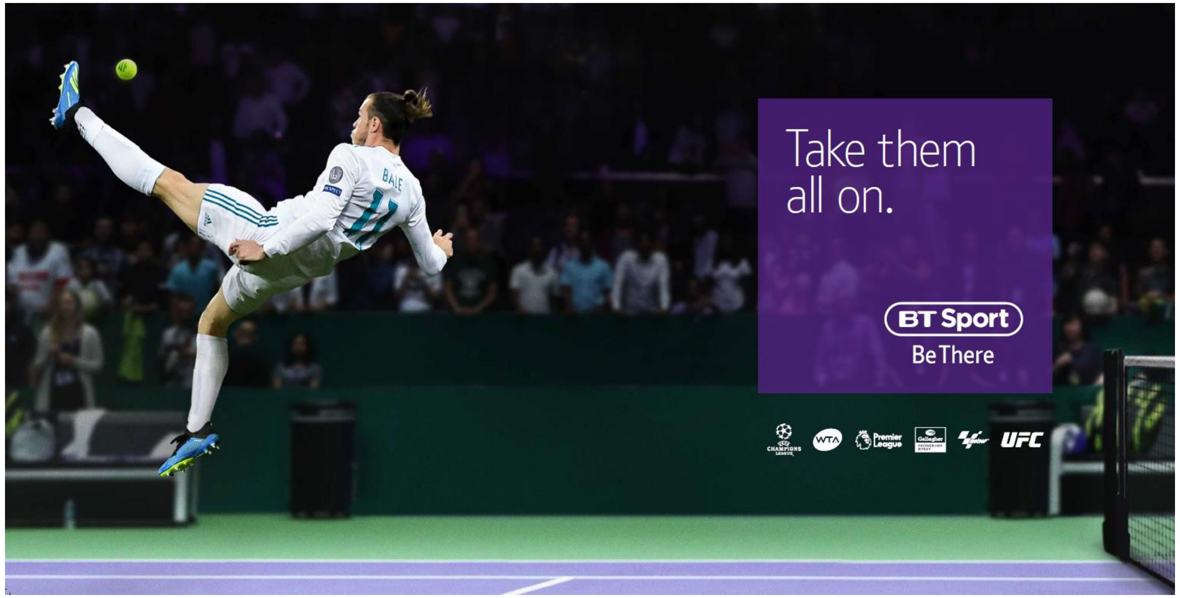
Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT whether as a result of the uncertainties arising from the UK's exit from the EU or otherwise; future regulatory and legal actions, decisions, outcomes of appeal and conditions or requirements in BT's operating areas, as well as competition from others; consultations and market reviews including the outcome of Ofcom's determination on broadband USO; 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, 4G spectrum and 5G trial; 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 transformation of our operating model and integration and restructuring plans not being delivered; the improvements to the control environment following the investigations into BT's Italian business not continuing to be operated successfully, effectively and timeously across the Group; the anticipated benefits of the evolved strategy, transformation and restructuring not being realised; the BTPS recovery plan; 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.

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

Gavin Patterson
Chief Executive

H1 results highlights

- Encouraging H1 results:
  - H1 revenue down 1% to £11.6bn
  - H1 EBITDA up 2% to £3.7bn
  - intensifying competition in consumer and enterprise markets
- Consumer:
  - good progress with BT Plus
  - higher volume and mix of high-end smart phones
- Enterprise:
  - continuing legacy product declines
  - offset by mobile, IP and networking
  - Global Services progressing well against updated strategy
- Openreach:
  - majority of major and a number of smaller CPs signed volume-discount deal
  - accelerating ultrafast network roll-out



BT Group strategy – positive progress in all areas

Our purpose: To use the power of communications to make a better world

Our vision: Leadership in converged connectivity and services, brilliantly delivered

Our goal: Drive sustainable growth in value

Our strategy:

- Converged Services for UK Consumer and Enterprise
- Digital Global Services for MNCs[1]
- Unmatched UK-wide Fixed Access for all CPs[2]

- Deliver differentiated customer experiences
- Invest in integrated network leadership
- Transform our operating model

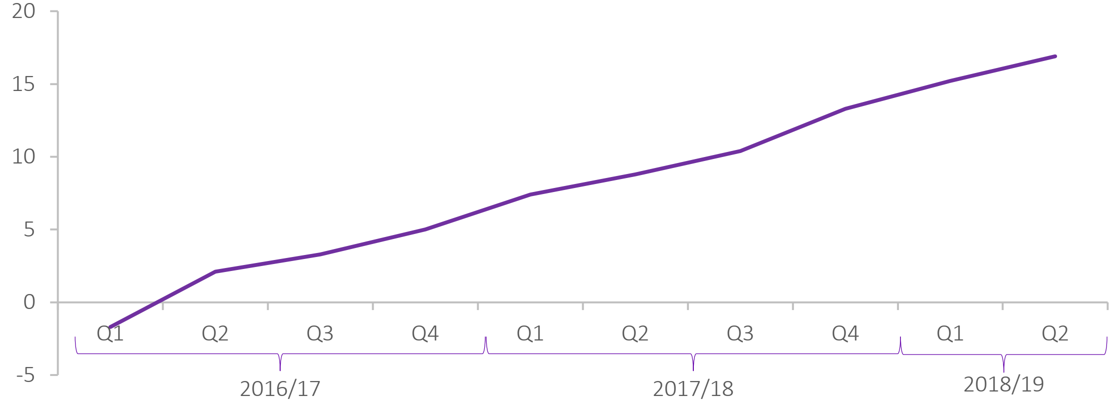
Renew our capabilities and culture

Our values: Personal | Simple | Brilliant

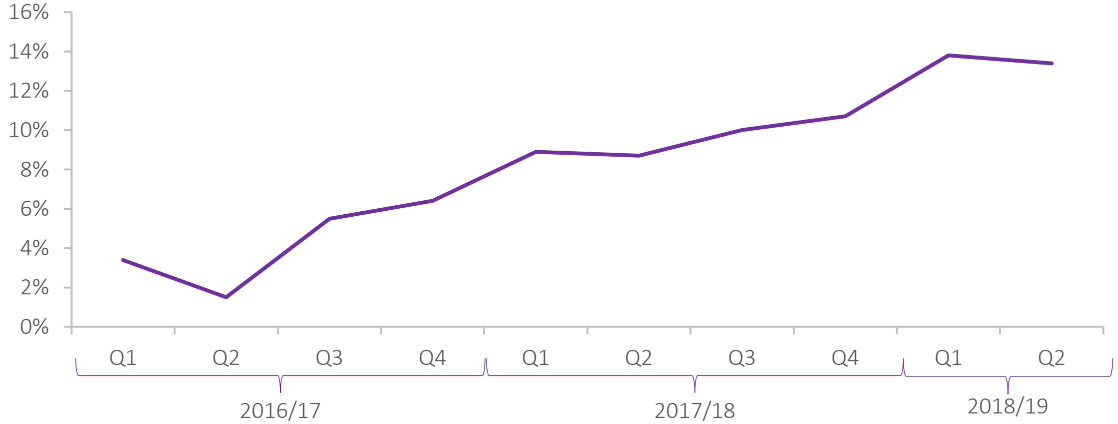
[1] Multi-National Corporations
[2] Communications Providers

Deliver differentiated customer experiences

Movement in Group Net Promoter Score[1]



Movement in Group Right First Time[2]



- Group NPS and RFT continue to improve
- Service:
  - Openreach lowest ever missed appointments rate
  - Openreach ahead on all 42 Ofcom copper and fibre minimum service levels
  - new Plusnet App launched
  - 3m customers using Call Protect
- Products:
  - positive sales momentum for BT Plus
  - Sport viewing figures continue to grow across TV and digital platforms
  - c.40% SME sales involve 4G Assure
  - Service and Network Automation Platform launched in Global Services
- Focus on ‘more for more’ strategy

[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 (e.g. completing orders/fixing faults on time).
The scope of NPS and RFT are re-baselined at the start of the financial year.

Invest in integrated network leadership

Fixed

- Accelerated FTTP[1] deployment to c.13k premises/week
- FTTP costs at lower end of expectations
- Positive engagement with Gov. and Ofcom on ‘key enablers’
- Good take-up of Openreach volume-discount deal

Mobile

- Launched first “live” 5G trial in October
- On track to launch 5G in 2019
- Improving 4G geographic coverage
- EE ranked ‘UK’s best network’ by RootMetrics

[1] Fibre-to-the-Premises

Transform our operating model

- Gross reduction of c.2000 roles
- £350m annualised benefits at cost of £206m
- 31k employees transferred to Openreach
- DCR[1] commitments largely complete
- Northern Ireland Networks transferred to Openreach
- Business and Public Sector combined with Wholesale and Ventures:
  - accelerate transformation
  - simplify operating model
  - strengthen accountabilities
- 2 disposals in line with strategy to exit non-core businesses

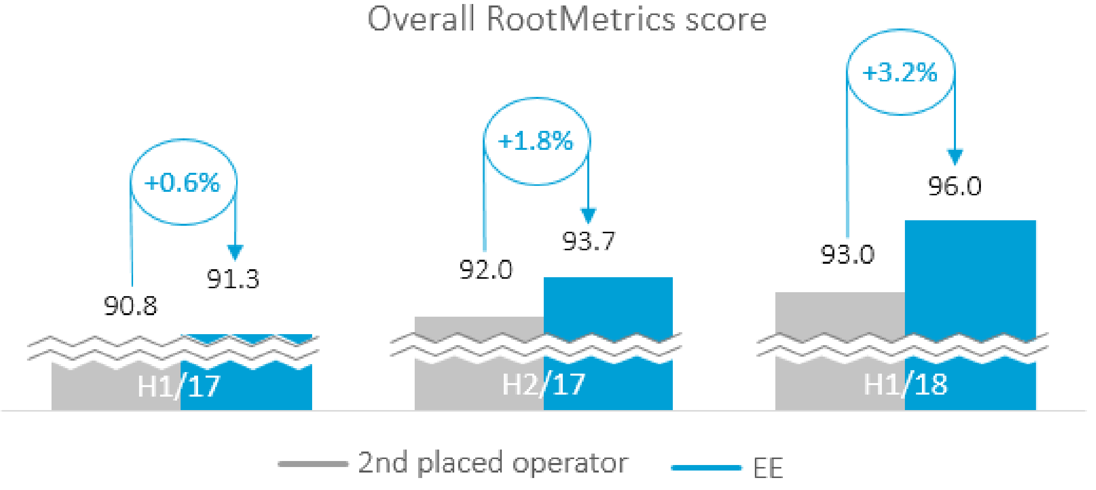
[1] Digital Communications Review

Consumer – convergence momentum

- Revenue up 3% :
  - growth in high-end smartphones and SIM only
  - strong BT Plus performance
  - 68% of broadband customers now on FTTC[1]/P
- Fixed churn up due to market conditions and price increase
- EBITDA up 8% driven by revenue growth and supplier rebates, partially offset by:
  - increased sports rights
- Further investments in customer experience:
  - best mobile network for 5th consecutive year[2]
  - 1000 permanent service roles created, 100% BT mobile calls answered onshore
  - long term contract extension with Sky and new distribution deals

	H1 2018/19	H1 2017/18	Change
Revenue	£5,272m	£5,127m	3%
EBITDA	£1,221m	£1,131m	8%
Capex	£401m	£461m	(13)%

Best mobile network[1] since 2013 and leadership increasing



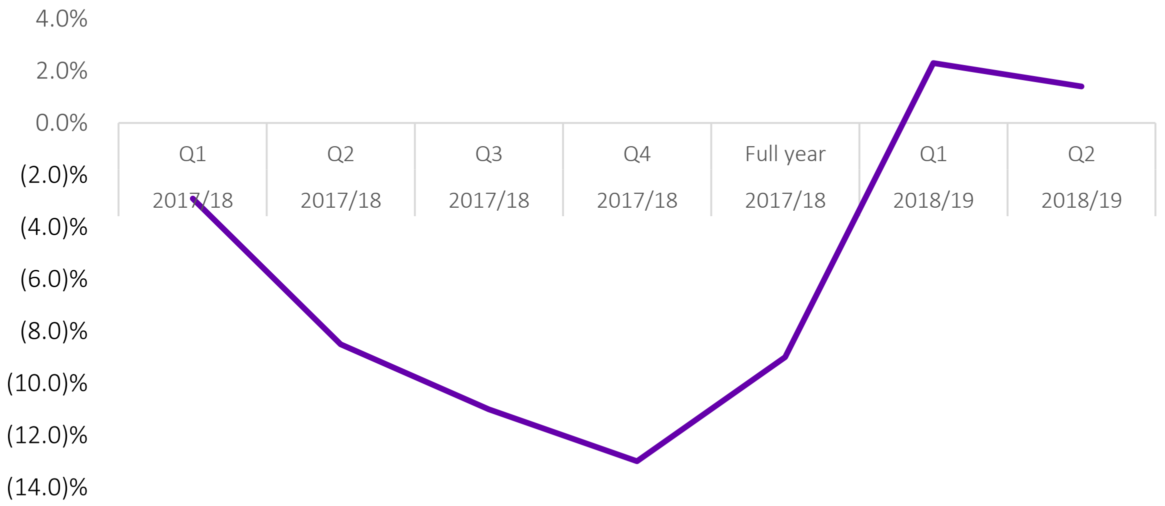
[1] Fibre-to-the-Cabinet
[2] RootMetrics

Business and Public Sector – continued momentum but intense competition

- Revenue down 4%:
  - continued decline in traditional voice, lower equipment sales
  - offset by growth in mobile, IP and networking
- EBITDA up 2%:
  - reflects more stability in Public Sector contracts, lower voice input costs, labour cost efficiencies and some one-offs in Q2
- Order intake down 26% to £2.8bn on rolling 12-month basis reflecting a large wholesale deal last year:
  - 5-year NHS network contract for South East of England
  - 7-year UC[1] contract with Lothian Health Board
  - 5-year WAN[2] services contract with Scottish Police Authority

	H1 2018/19	H1 2017/18	Change
Revenue	£2,195m	£2,275m	(4)%
EBITDA	£708m	£696m	2%
Capex	£136m	£152m	(11)%

BPS quarterly EBITDA - YoY



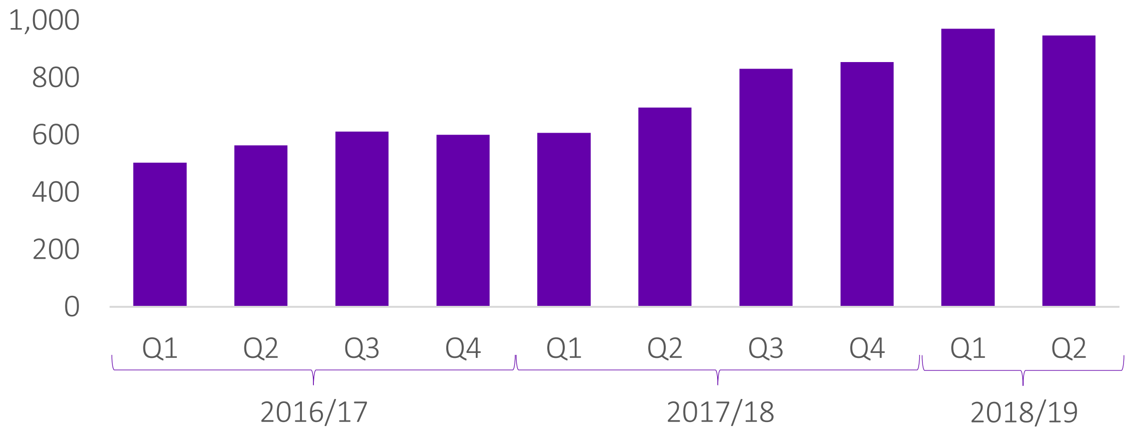
[1] Unified Communications
[2] Wide Area Network

Wholesale and Ventures – legacy declines, Ventures growth

- Revenue down 8%:
  - Voice down 14% as the migration to newer IP technologies continues; Broadband down 17%
  - Mobile revenue down 10%
  - Ventures revenue up 11% with continued growth in messaging and external deals in Supply Chain
  - 286 InLinkUK units installed at end of H1
- EBITDA down 11%:
  - reflecting declines in legacy revenue partly offset by 6% decline in operating costs
- Order intake down 26% to £1.1bn on rolling 12-month basis following large MVNO[1] contract in prior year

	H1 2018/19	H1 2017/18	Change
Revenue	£929m	£1,007m	(8)%
EBITDA	£325m	£364m	(11)%
Capex	£106m	£106m	Flat

Messaging volumes (m)



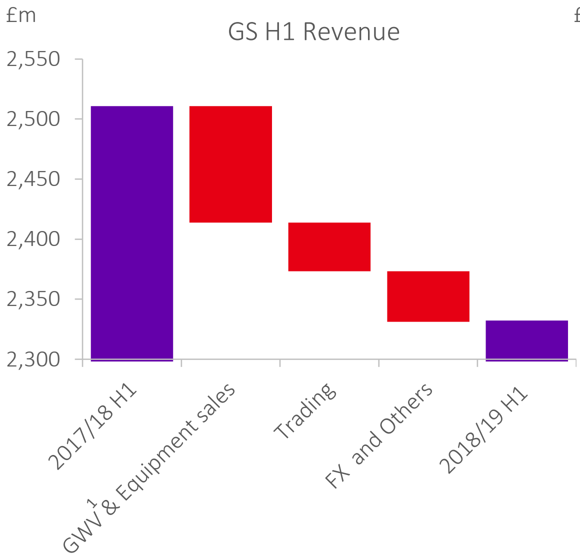
[1] Mobile Virtual Network Operator

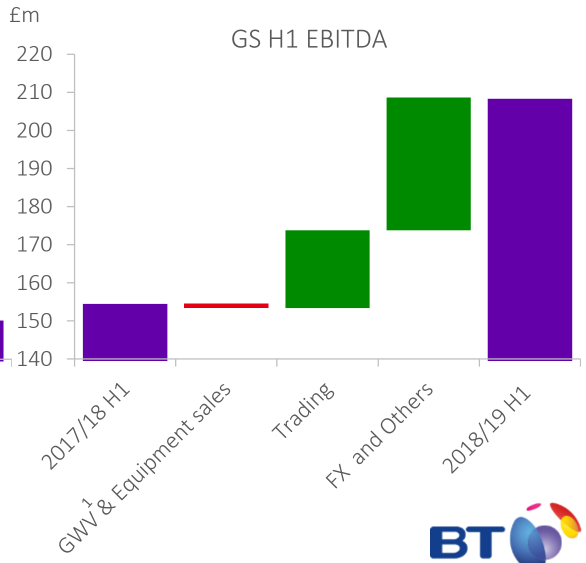
Global Services – results inline with Digital GS strategy

- Revenue down 7% mostly due to decision to reduce low margin business
- EBITDA up 35%, reflecting 10% lower operating costs
- Capex down 23% in line with strategy to reduce capital employed
- Order intake down 8% to £3.5bn on rolling 12-month basis as customers move to shorter, more flexible contracting
- Clear path to transform business:
  - radically reposition around core markets and MNCs
  - building value in strategically selected areas of growth
  - moving at pace to lower costs, reduce risk and deliver higher returns

	H1 2018/19	H1 2017/18	Change
Revenue	£2,332m	£2,511m	(7)%
EBITDA	£208m	£154m	35%
Capex	£99m	£128m	(23)%

Global Services' revenue and EBITDA movements





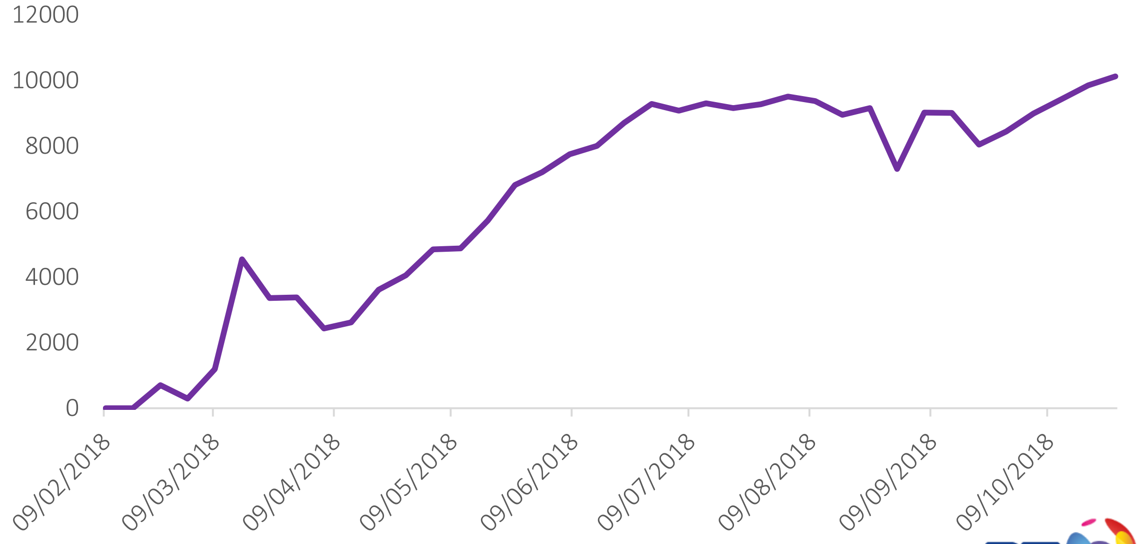
[1] Global Wholesale Voice

Openreach – accelerating FTTP deployment

- Revenue down 1%:
  - strong growth in FTTC broadband and Ethernet volumes offset by price regulation on FTTC and Ethernet products
  - majority of major and a number of smaller CPs signed volume-discounts deal
- EBITDA down 6%:
  - revenue decline, wage inflation, higher training costs, recruitment of new engineers
  - partially offset by efficiency savings
- 'Fibre First' programme on track:
  - accelerated FTTP deployment to c.13k premises/week
  - build costs at lower end of £300-400 range
  - c.2m premises passed with Ultrafast products

	H1 2018/19	H1 2017/18	Change
Revenue	£2,472m	£2,509m	(1)%
EBITDA	£1,177m	£1,250m	(6)%
Capex	£1,031m	£787m	31%

Fibre Cities build – premises per week



Simon Lowth

Chief Financial Officer

H1 2018/19 results – financial overview

	H1 2018/19	H1 2017/18 (IFRS 15 pro forma)	Change YoY
Adjusted revenue[1]	£11,624m	£11,770m	(1)%
– underlying[2]			(0.9)%
Operating costs[3]	£7,949m	£8,204m	(3)%
Adjusted EBITDA[1]	£3,675m	£3,605m	2%

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

H1 2018/19 results – financial overview

	H1 2018/19	H1 2017/18 (IFRS 15 pro forma)	Change YoY
Adjusted EBITDA[1]	**£3,675m**	**£3,605m**	**2%**
Depreciation and amortisation	£(1,736)m	£(1,757)m	1%
Net finance expense[1]	£(283)m	£(259)m	(9)%
Tax[1]	£(340)m	£(321)m	(6)%
Adjusted profit after tax[1]	**£1,317m**	**£1,268m**	**4%**
Specific items	£(265)m	£(450)m	41%
Reported profit for the period	**£1,052m**	**£818m**	**29%**
Adjusted EPS[2]	13.3p	12.8p	4%

[1] before specific items
[2] earnings per share

H1 2018/19 results – cash flow

	H1 2018/19	H1 2017/18 (IFRS 15 pro forma)	Change YoY
Adjusted EBITDA[1]	**£3,675m**	**£3,605m**	**2%**
Interest	£(228)m	£(257)m	11%
Tax (ex cash tax benefit of pension deficit payments)	£(294)m	£(209)m	(41)%
Change in working capital	£(497)m	£(365)m	(36)%
Change in other	£54m	£125m	(57)%
Cash available for investment and distribution	**£2,710m**	**£2,899m**	(7)%
Cash capital expenditure[2]	£(1,736)m	£(1,654)m	(5)%
Normalised free cash flow[3]	**£974m**	**£1,245m**	(22)%
Net cash flow from specific items	£(277)m	£(589)m	53%
Refund on acquisition of spectrum	£21m	-	n/m
Reported free cash flow	**£718m**	**£656m**	**9%**
Dividend	4.62p	4.85p	(5)%

[1] before specific items
[2] before purchases of telecoms licences
[3] before specific items, purchases of telecoms licences, pension deficit payments and the cash tax benefit of pension deficit payments

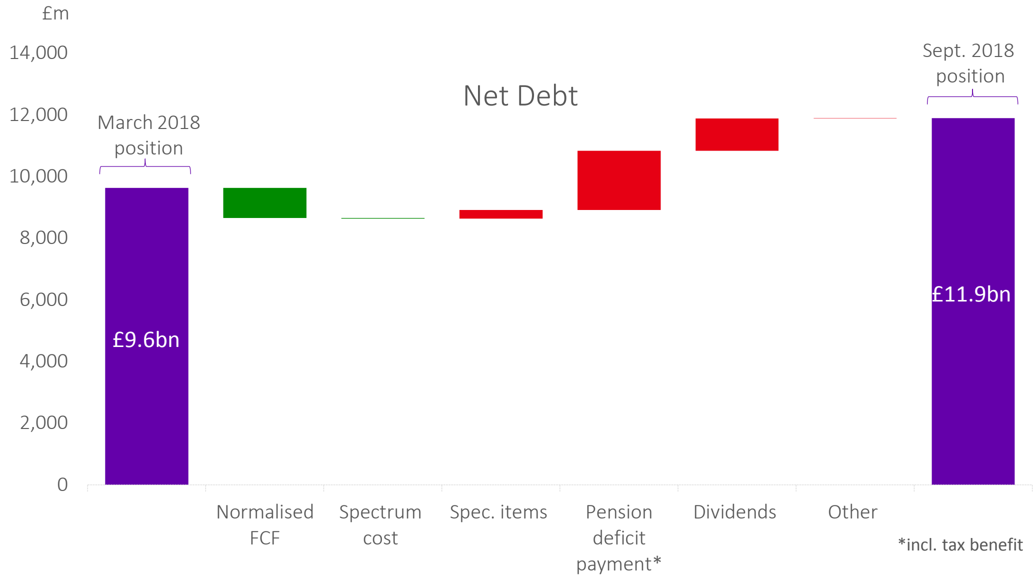
Strong balance sheet and reduced pension deficit

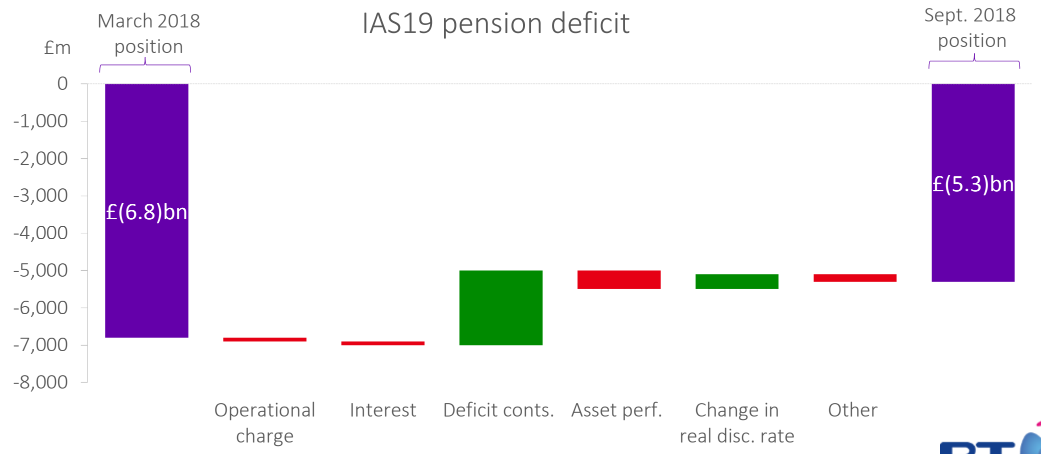
Net Debt

- Ample liquidity: £3.8bn cash & current investments and £2.1bn undrawn committed facilities
- £2.0bn pension contribution, funded by BTPS subscribing for long-dated sterling bonds issued by BT in June 2018
- Targeting BBB+ credit rating through the cycle:
  - currently BBB or equivalent
- Smooth, long dated maturity profile

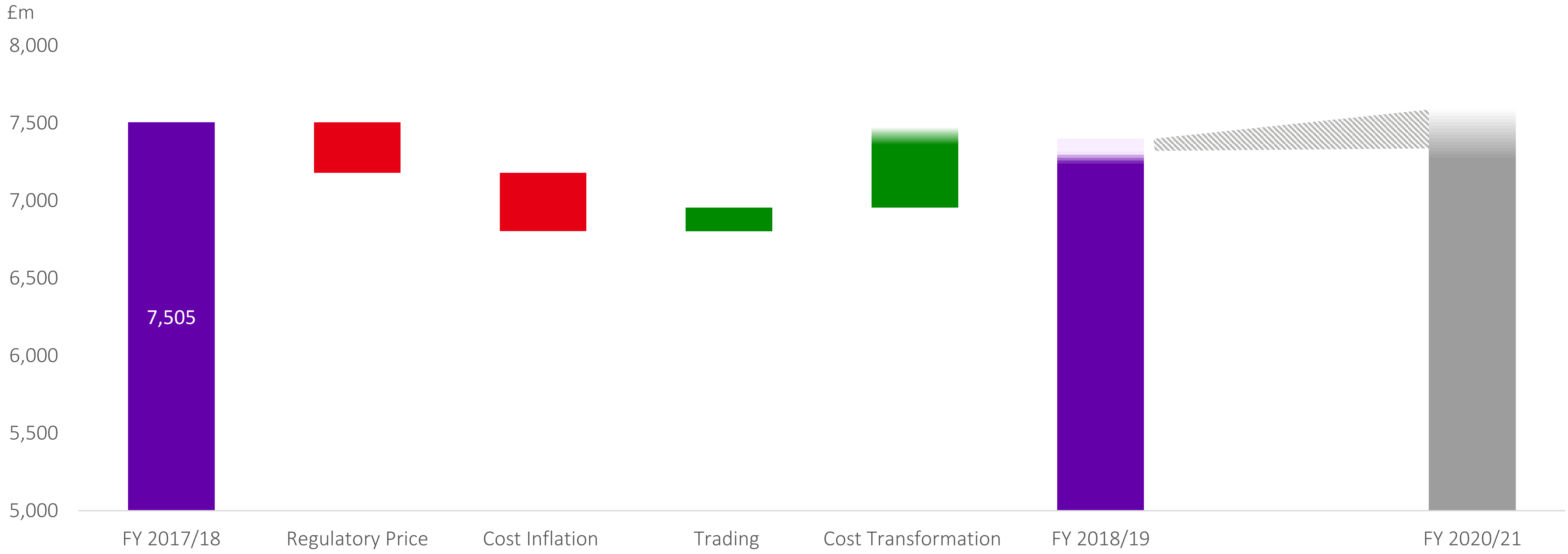
Pension

- IAS 19 deficit £4.5bn (net of tax) at 30 September 2018
- Compared to 30 June 2018 valuation:
  - decline in assets due to market movements
  - increase in liabilities due to higher fall in real discount rate
- Appeal of Section C indexation case heard in Oct., awaiting judgement
- Reviewing impact on BT Group of Lloyds Banking Group's High Court judgment on equalisation of pension benefits





Medium term outlook unchanged



Transformation drives medium term EBITDA growth

2018/19 financial outlook unchanged

Underlying revenue[1] ex transit	c.(2)%
EBITDA[2]	£7.3bn - £7.4bn
Capital Expenditure (excluding BDUK clawback)	c.£3.7bn
Normalised free cash flow[3]	£2.3bn - £2.5bn
Dividend per share	Unchanged

[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

BT