



BT Group plc

Acquisition of EE

5 February 2015



Forward-looking statements caution

This presentation contains (or may contain) statements that are, or may be deemed to be, “forward-looking statements”, including within the meaning of Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Forward-looking statements are based on current expectations and projections about future events and other matters that are not historical fact. These forward-looking statements are sometimes identified by the use of a date in the future or forward-looking terminology, including, but not limited to, the words “aim”, “anticipate”, “believe”, “intend”, “plan” “estimate”, “expect”, “may”, “target”, “project”, “will”, “could” or “should” or, in each case, their negative or other variations or words of similar meaning. These forward-looking statements include matters that are not historical facts and include statements that reflect the directors’ intentions, beliefs and current expectations. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond BT’s control. They are not guarantees of future performance and are based on one or more assumptions.

Forward-looking statements appear in a number of places throughout this presentation and include statements regarding the intentions, beliefs or current expectations of BT concerning, without limitation: current and future years’ outlook; revenue and revenue trends; EBITDA; free cash flow and operating free cash flow; capital expenditure; shareholder returns including progressive dividends; net debt; credit ratings; investment in and rollout of BT’s fibre network, and its reach, innovations, increased speeds and speed availability; BT’s broadband-based service and strategy; BT’s investment in TV; growth opportunities in networked IT services; the pay-TV services market, broadband, and mobility and future voice; enhancing BT’s TV service; growth of, and opportunities available in, the communications industry and BT’s positioning to take advantage of those opportunities; expectations regarding competition, market shares, prices and growth; expectations regarding the convergence of technologies; plans for the launch of new products and services; network performance and quality; the impact of regulatory initiatives, decisions and outcomes on operations; BT’s possible or assumed future results of operations and/or those of its associates and joint ventures; investment plans; adequacy of capital; financing plans and refinancing requirements; demand for and access to broadband and the promotion of broadband by third-party service providers; anticipated financial and other benefits and synergies resulting from the proposed acquisition of EE (the “Acquisition”), including revenue, operating cost and capital expenditure synergies; and BT’s plans and objectives following the Acquisition.

Statements contained in this presentation regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Any forward-looking statements in this presentation reflect BT’s view with respect to future events as at the date of this presentation and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the conditions to the Acquisition being satisfied, including regulatory approval of the Acquisition, increased leverage as a result of the Acquisition, BT’s ability to integrate the businesses and retention of key personnel, the successful realisation of the anticipated synergies and strategic benefits and an adequate return on its investment from the Acquisition, consumer behaviour, the increased regulatory burden facing the Enlarged Group, maintenance of EE’s performance and momentum in its business during the period prior to Acquisition and throughout integration and BT’s operations, result of operations, financial condition, growth, strategy, liquidity and the industry in which BT operates, and the other risk factors highlighted in BT’s 2014 Annual Report and risks associated with mobile network operations, as detailed in EE’s EMTN prospectus dated 28 March 2014. No assurances can be given that the forward-looking statements in this presentation will be realised. BT’s actual performance, results of operations, internal rate of return, financial condition, distributions to shareholders, the development of its financing strategies and the results or eventual success of the Acquisition may differ materially from the impression created by the forward-looking statements contained in this presentation. In addition, even if BT’s actual performance, results of operations, financial condition, distributions to shareholders and results of the Acquisition are consistent with the forward-looking statements contained in this presentation, those results or developments may not be indicative of results or developments in subsequent periods.



BT Group plc

Gavin Patterson, Chief Executive

Our purpose, goal, strategy and culture

Our purpose

To use the power of communications to make a better world

Our goal

A growing BT: to deliver sustainable profitable revenue growth

Our strategy

Broaden and deepen our customer relationships

**Deliver superior
customer service**

**Transform
our costs**

**Invest for
growth**

Fibre

**TV and
content**

**Mobility
and
future voice**

**UK business
markets**

**Leading
global
companies**

Our culture

A healthy organisation

Transaction overview

Creation of the UK's leading communications provider 100% of EE to be acquired for an Enterprise Value of £12.5bn¹

1 Acquisition of a highly attractive business

- ▶ The UK mobile market leader – N^o.1 for revenue, with 31m customers, of which 24.5m are direct mobile customers
- ▶ The UK's most advanced 4G network, with market-leading network performance

2 Greater scale from combining fixed and mobile market leaders

- ▶ Highly complementary assets
- ▶ Little overlap, so significant cross-sell opportunity
- ▶ Combining leading 4G network with UK's largest superfast fixed network

3 Meeting customer demand for compelling Fixed-Mobile Converged products

- ▶ European markets show strong penetration of FMC offerings
- ▶ BT will be better equipped to offer FMC services

¹ Amount payable to Deutsche Telekom (DT) and Orange will be net of EE Net Debt at deal completion

Transaction overview

Creation of the UK's leading communications provider

100% of EE to be acquired for an Enterprise Value of £12.5bn¹

4

Accelerating BT's mobile strategy and gaining owner economics in mobile

- ▶ Owner economics provide greater control over product and investment roadmap and more upside from volume growth
- ▶ Transaction allows BT to meet customer demand quickly

5

Creating value and unlocking significant synergies

- ▶ Accretive to FCF per share in the first full year post completion
- ▶ Significant cost savings with potential for material revenue synergies
 - c.£3.0bn opex & capex synergy NPV and c.£1.6bn revenue synergy NPV
- ▶ Attractive valuation of 6.0x EBITDA and 9.6x opFCF²

¹ Amount payable to Deutsche Telekom (DT) and Orange will be net of EE Net Debt at deal completion

² Calculated using EV of £12.5bn less £3.0bn NPV of cost synergies post integration costs. Based on EE's financial data for the 12 months to 31 December 2014.

EBITDA is EE's Adjusted EBITDA; opFCF is Adjusted EBITDA less capex

Transaction financing

Financing¹

- ▶ New BT shares issued at closing – 12% of enlarged group to DT, 4% to Orange
 - cap and collar price protection in place at closing
 - cash component to be adjusted to offset maximum +/-4% movement versus agreed BT share price (411.5p)
 - no further cash adjustment for movement above/below 4%

c.£6.8bn

- ▶ Equity placing constituting c.3% of BT's share capital
 - to be launched in due course

c.£1.0bn

- ▶ EE Net Debt²

c.£2.3bn

- ▶ Existing cash and net new debt financing

c.£2.4bn

- ▶ **Total Enterprise Value**

£12.5bn

¹ Illustrative, calculated using BT's closing share price on 4 February 2015

² EE net debt as at 31 December 2014, adjusted for other debt-like items

Transaction detail

Share conditions

- ▶ Standstill period
 - for a 3 year period, DT unable to increase its stake above 15%¹; Orange unable to go above 4%
- ▶ Lock-up period
 - DT and Orange unable to sell down for 18 months and 12 months, respectively
 - Orange is permitted to sell its BT shares to DT at any time, subject to DT's 15% standstill restriction
 - off-market sales will be permitted in certain circumstances but BT will have a right of first offer

Shareholder approval

- ▶ As a Class 1 transaction, shareholder approval will be required at an EGM
- ▶ Shareholders will also need to approve BT's right of first offer

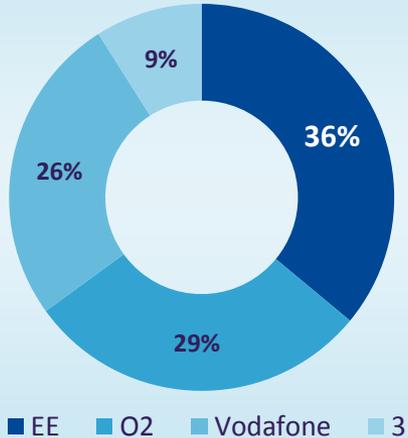
Relationship agreement

- ▶ DT representative to join BT board as non-executive director on completion
 - appropriate compliance procedures to manage potential conflicts of interest

¹ During the standstill DT can increase its holding from 12% to 15% only by buying some of Orange's shares in BT

1 EE – the UK mobile market leader

Nº.1 for UK mobile revenue¹

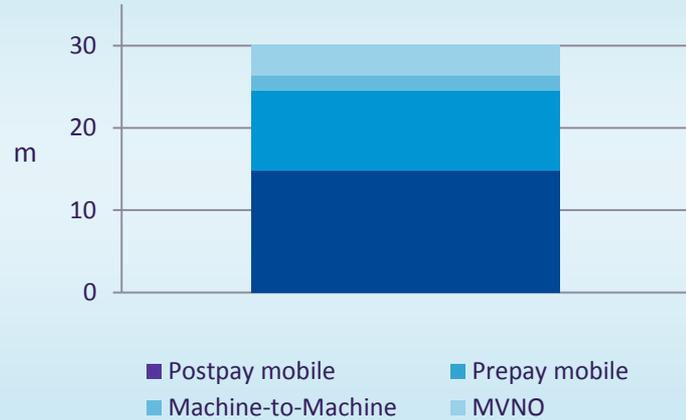


- ▶ £6.3bn total revenue²
- ▶ £5.6bn mobile service revenue²

¹ Source: Analysys Mason, total service revenue for calendar H1 2014

² Year to 31 December 2014

>30m UK mobile customers³



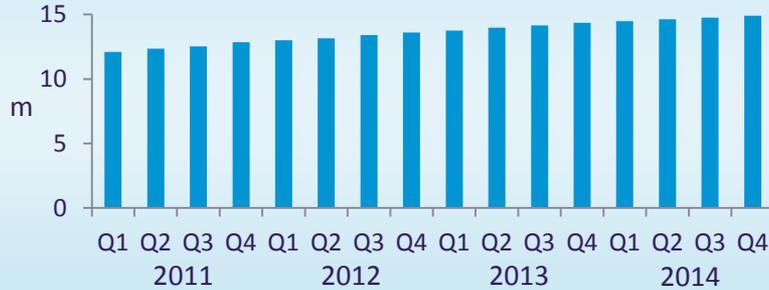
- ▶ 24.5m direct mobile customers
- ▶ c.15m customers on postpay plans, up 4% YoY
 - 6x higher ARPU than prepaid
- ▶ Postpay churn⁴ at 1.2%

³ Source: EE company reporting, at 31 December 2014

⁴ Excluding Machine-to-Machine, MVNO, at 31 December 2014

1 EE – encouraging trends¹

Strong growth in postpaid base



A growing fixed broadband base



Stable ARPU



Growing EBITDA²

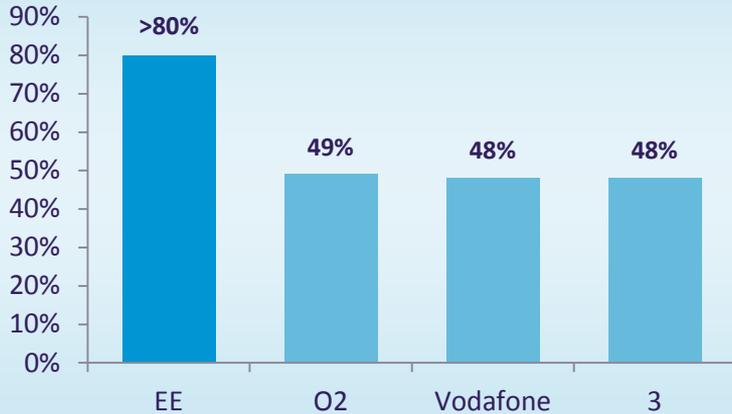


¹ Source: Company reporting, calendar years

² Rolling 12-month adjusted EBITDA

1 EE – strong network coverage and performance

N^o.1 for 4G coverage¹



- ▶ >48 million people covered by EE 4G network
 - 510 major towns and cities
 - almost 4,000 villages
- ▶ 7.7 million 4G subscribers

¹ Latest figures, as reported by companies. EE as at Jan 2015; O2 as at Sep 2014; Vodafone as at Sep 2014; 3 as at Dec 2014. Note: EE 4G coverage at Sep 2014 was >75%

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No.1 for network performance

- ▶ RootMetrics overall performance winner in H1 2014²



- ▶ Named N^o.1 for UK-wide call performance by Ofcom
- ▶ Strong spectrum position with 105MHz paired spectrum

² RootMetrics® award ranking based on RootMetrics 1H 2014 UK RootScore Report for mobile performance as tested on best available plans and devices on 4 mobile networks across all available network types (January – June 2014). The RootMetrics award is not an endorsement of EE. Your results may vary. See rootmetrics.co.uk for details.



2 Scale in the UK by combining fixed and mobile market leaders



Position	Nº.1 in fixed	Nº.1 in mobile
Mobile market share ¹	<1%	35%
Broadband market share ¹	32%	3%

A highly complementary combination, with little overlap

Combining best fixed-line network with best mobile network

Cross-selling opportunities

Significant cost synergies

Enhanced distribution network with 580 retail stores

Innovative, seamless services combining fibre, 4G and wi-fi

¹ Source: Company reporting and Ofcom subscriber data

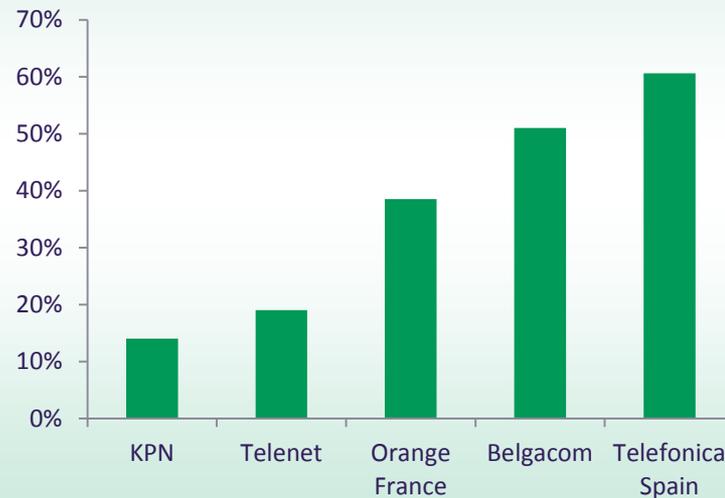


3 Meeting customer demand for FMC products

- ▶ Move from voice to data has blurred lines between fixed and mobile propositions
 - tablets/phablets/smartphones used for both home broadband and on the move
 - >200m iPads sold worldwide since launch in 2010
- ▶ Some European telcos have signed up more than half of their broadband customers to mobile offers
- ▶ Currently consumer FMC propositions are only offered by Virgin Media and TalkTalk in the UK
- ▶ BT will be better equipped to provide FMC services in the UK, with its own networks

European examples show strong penetration of FMC offerings

FMC customers as % of broadband customers/households¹



¹ All figures per latest company report. KPN: Penetration rate calculated as 4P customers as % of "Residential Broadband Customers"; Telenet: percentage of unique customer relationships taking mobile services; Orange France: Orange Open customers excluding Open multi-ligne (multi-sim 4P) as proportion of total broadband customers; Belgacom: percentage of households with a fixed and mobile component; Telefonica: Fusion customers as % of total broadband customers

3 A clear vision to deliver seamless FMC services

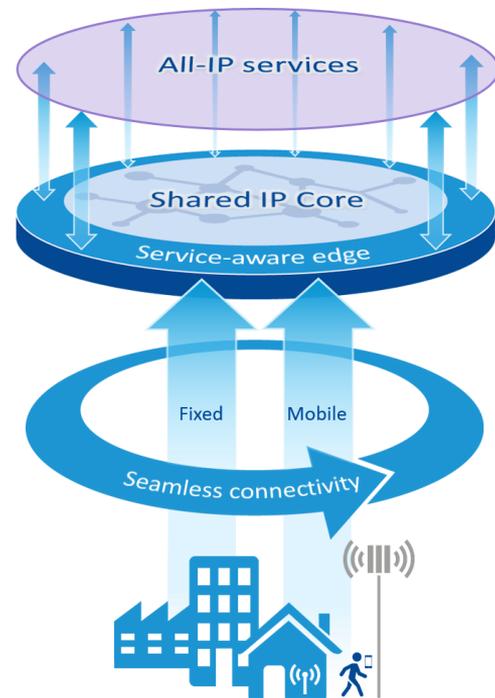
The convenience of mobile with the power of fixed

Services

- ▶ Seamless connectivity to the best fixed and mobile networks
- ▶ Customers migrate to “All-IP” services
 - driven by compelling bundles of voice, broadband, TV and mobility
 - by 2025, all customers will be using IP voice

Network

- ▶ One common access platform
- ▶ Connected through copper, fibre and mobile
- ▶ A single, IP core network
 - replacing legacy networks and platforms



4

Accelerating BT's mobile strategy and gaining owner economics in mobile

Launched with MVNO proposition



Business: converged offering launched

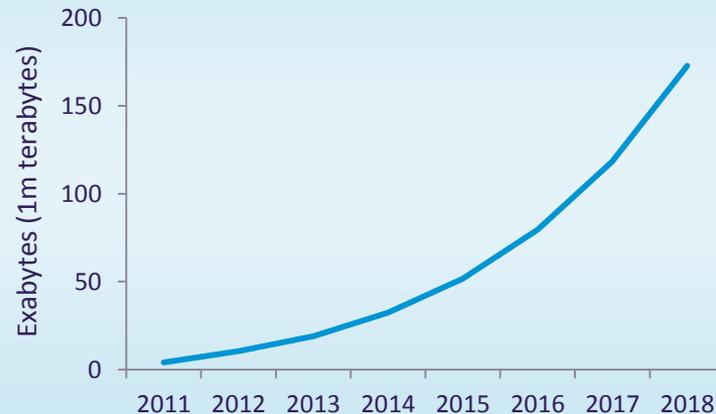


Consumer: working towards offering services this FY

Full 'inside-out' network
Combined with leading macro network

- ▶ Transaction allows BT to quickly meet changing customer demands while working towards a consumer launch this financial year
- ▶ BT gains 'owner economics' in mobile:
 - more control over future investment and product innovation
 - long-term certainty
 - higher margins
 - reduced exposure to variable data costs
- ▶ Remain focused on delivering our 'inside-out' network over next 18 months
 - we still intend to deploy femtocells for best connectivity wherever our customers are

Forecast worldwide mobile data traffic growth rates 2011-2018¹



¹ Chart created by BT based on Gartner research. Source: Gartner, Inc., Forecast: Mobile Data Traffic, Worldwide, 2011-2018, Jessica Ekholm, January 12 2015



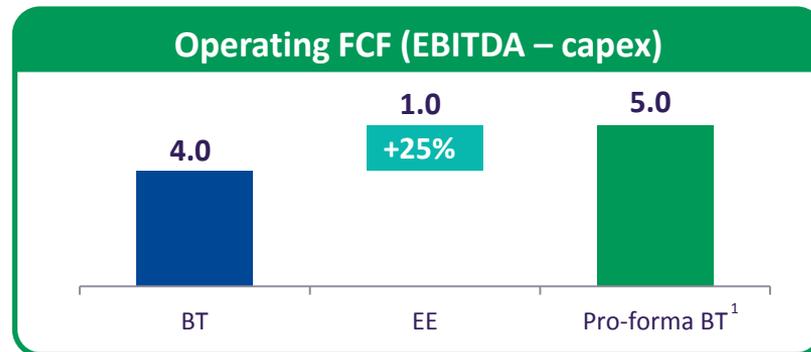
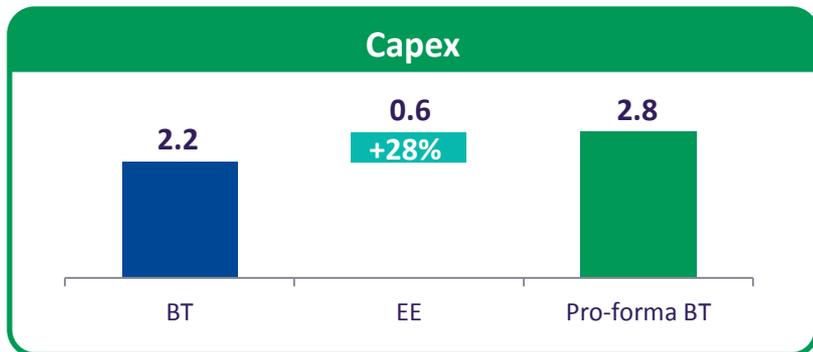
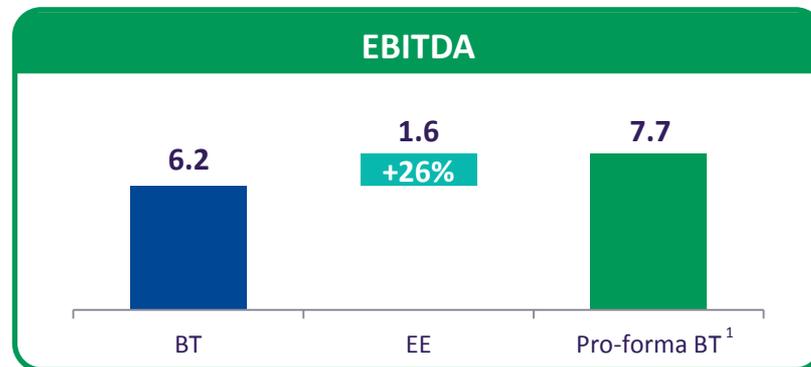
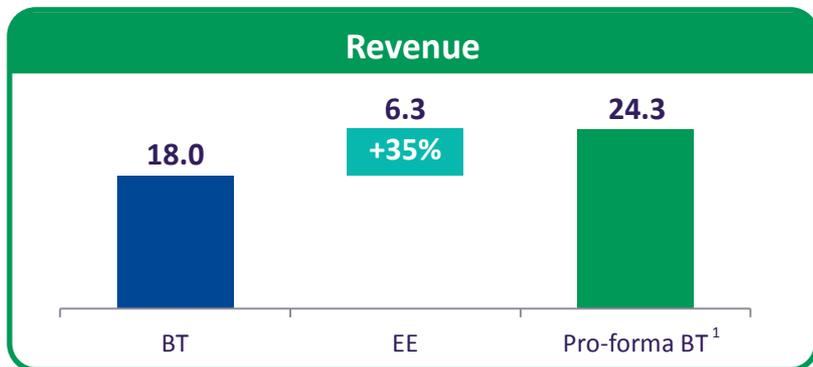


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Tony Chanmugam, Group Finance Director

Pro-forma financials

December 2014 LTM, £bn



Note:

BT financial information has been derived from quarterly results releases previously published by BT for the 12 months ended 31 December 2014. BT figures are before specific items.

EE financial information has been extracted without adjustment from the result announcement made by EE for the year ended 31 December 2014. The financial information was prepared under IFRS and in accordance with EE's accounting policies. EE adjusted EBITDA is before management and brand fees payable to its shareholders, one-off items and restructuring costs.

¹ Excluding consolidation adjustments and eliminations

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5 Creating value and unlocking significant synergies

Creating value

EV/EBITDA ▶ 6.0x EBITDA¹

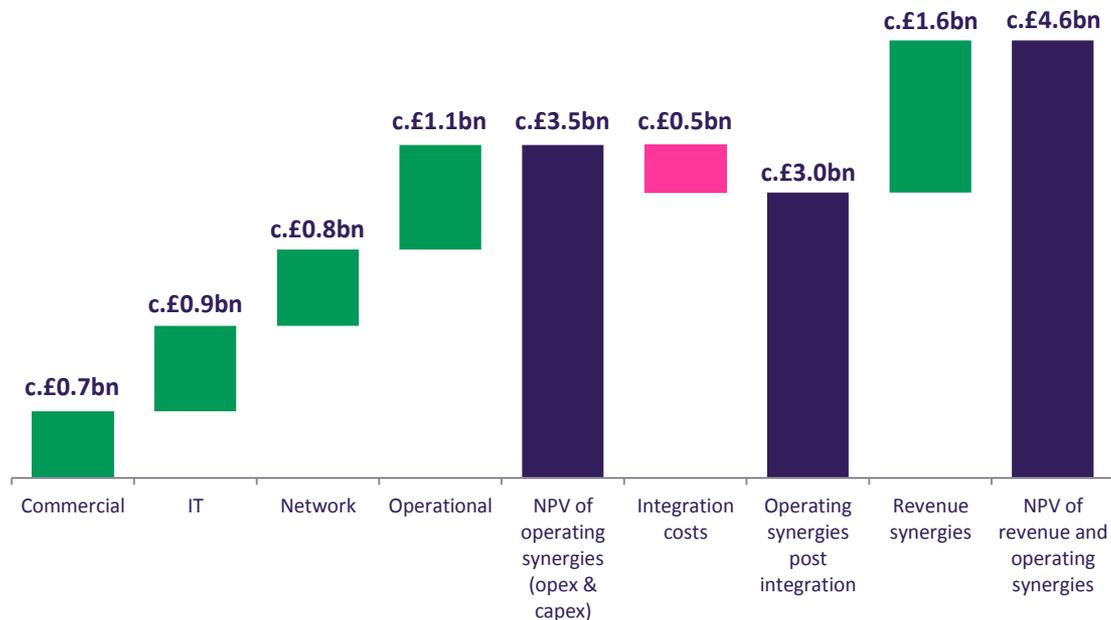
EV/opFCF ▶ 9.6x opFCF¹

FCF per share accretion ▶ 1st full year post completion

EPS accretion ▶ 2nd full year post completion²

ROIC > WACC ▶ Comfortably in 3rd full year post completion

Synergies worth NPV of £4.6bn

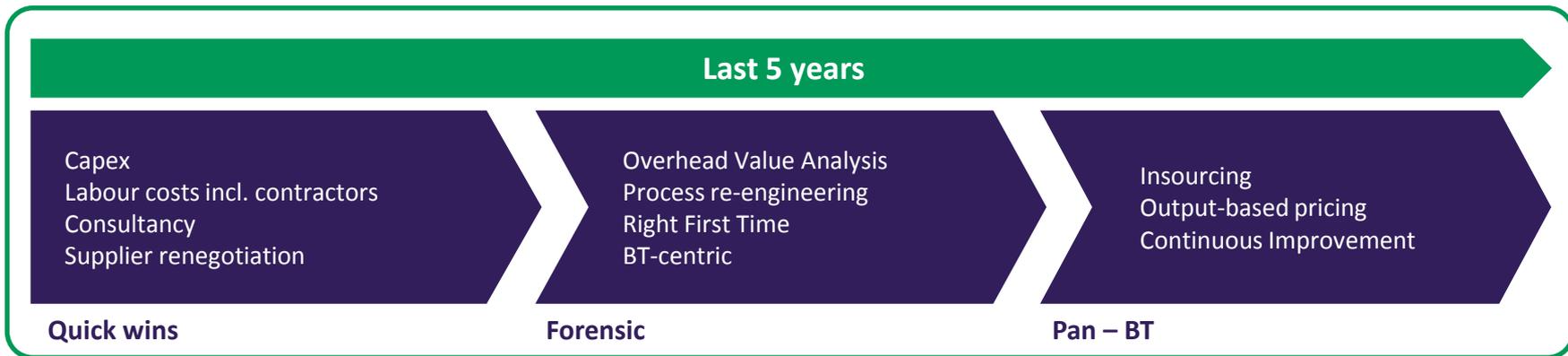


¹ EV of £12.5bn is adjusted for £3.0bn NPV of cost synergies post integration costs. Based on EE financials for the 12 months to 31 December 2014

² Based on aggregate financial forecasts for BT and EE including synergies; does not take into account the impacts of any purchase price allocation

5 Creating value and unlocking significant synergies

- ▶ BT and EE have proven track records in delivering cost transformation
 - BT's tried and tested approach has taken c.£5bn costs out of business over last 5 years
 - EE delivered post-transaction synergies ahead of initial expectations following Orange/T-Mobile merger
- ▶ We'll work closely with EE to
 - remove duplication
 - rationalise and renegotiate 3rd party spend
 - consolidate platforms and re-engineer processes



5 Creating value and unlocking significant synergies

Opex and capex combined synergies – areas of focus

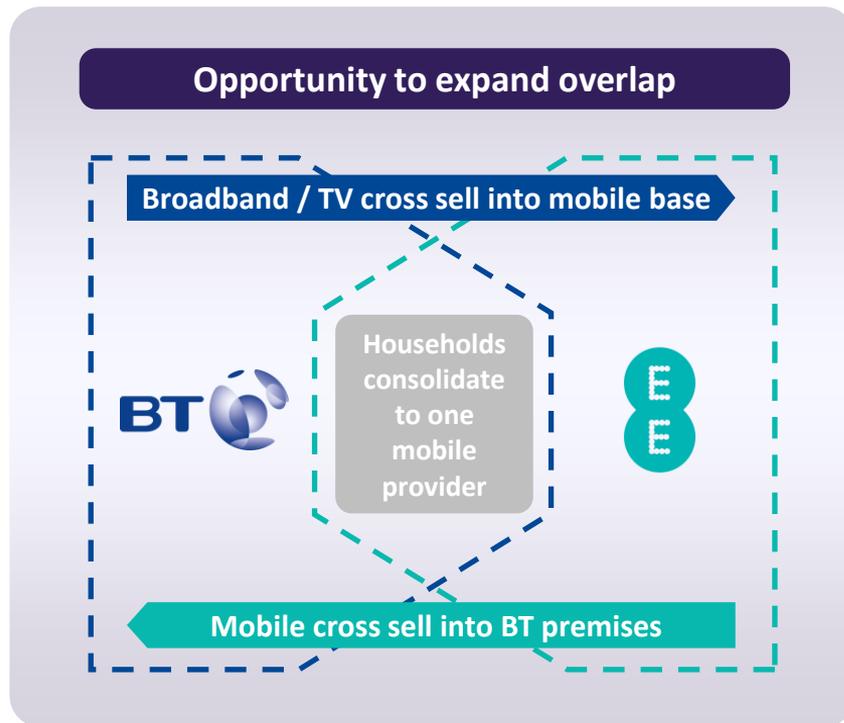
	Duplication	External spend	Platforms & processes	Run rate achieved in fourth full year post completion
Commercial	Sales & marketing activities	Procurement efficiencies from economies of scale	Digital platforms and brand portfolio	c.£70m
IT	IT operations & development	Insourcing activities from third parties	Customer support systems	c.£90m
Network	Network operations	Insourcing network elements	Simplifying network estate	c.£80m
Operational	Head office functions	Property estate	Realising scale economics in customer service operations	c.£120m

c.£360m total opex and capex synergy run rate achieved in fourth full year post completion
c.£3.0bn total NPV of opex and capex synergies

5 Creating value and unlocking significant synergies

Revenue synergies:

- ▶ Cross-selling and bundling opportunities across enlarged customer base
 - fixed-line sales to EE customers
 - accelerating sale of FMC services to BT's existing consumer customers
 - opportunity to increase market share in business mobile
 - creation of new services by combining portfolios, skills and networks



c.£1.6bn total NPV of revenue synergies

5 Creating value and unlocking significant synergies

Integration:

Day 1 organisation (post approvals)



- ▶ Focus on smooth operational transition
- ▶ More in-depth assessment of transformation opportunities
- ▶ EE to have senior representation on BT Operating Committee

Short term

- ▶ Integration project management office to manage overall process
- ▶ BT board sub-committee will track progress
- ▶ Begin transition to future operating model
 - alignment of corporate functions
 - technology function brought together with BT TSO
 - joint business sales organisation

Medium term

- ▶ Fully integrated operating model taking the best of both organisations
 - organised around the customer
 - sales and service functions combined
 - alignment of marketing teams
- ▶ Migration of customers onto common systems

Total integration costs of c.£0.6bn, NPV of c.£0.5bn

Financial strategy

- ▶ BT net debt at 31 December 2014 of £6.2bn
 - c.1.0x EBITDA
 - Pro forma net debt c.1.4x EBITDA¹
- ▶ Financing in line with conservative financial policy
- ▶ Credit rating expected to be at least maintained
 - continue to target BBB+/Baa1 credit rating over medium term

Drive profitable revenue growth

Grow EBITDA

Grow free cash flow

Invest in
business

Reduce
net debt

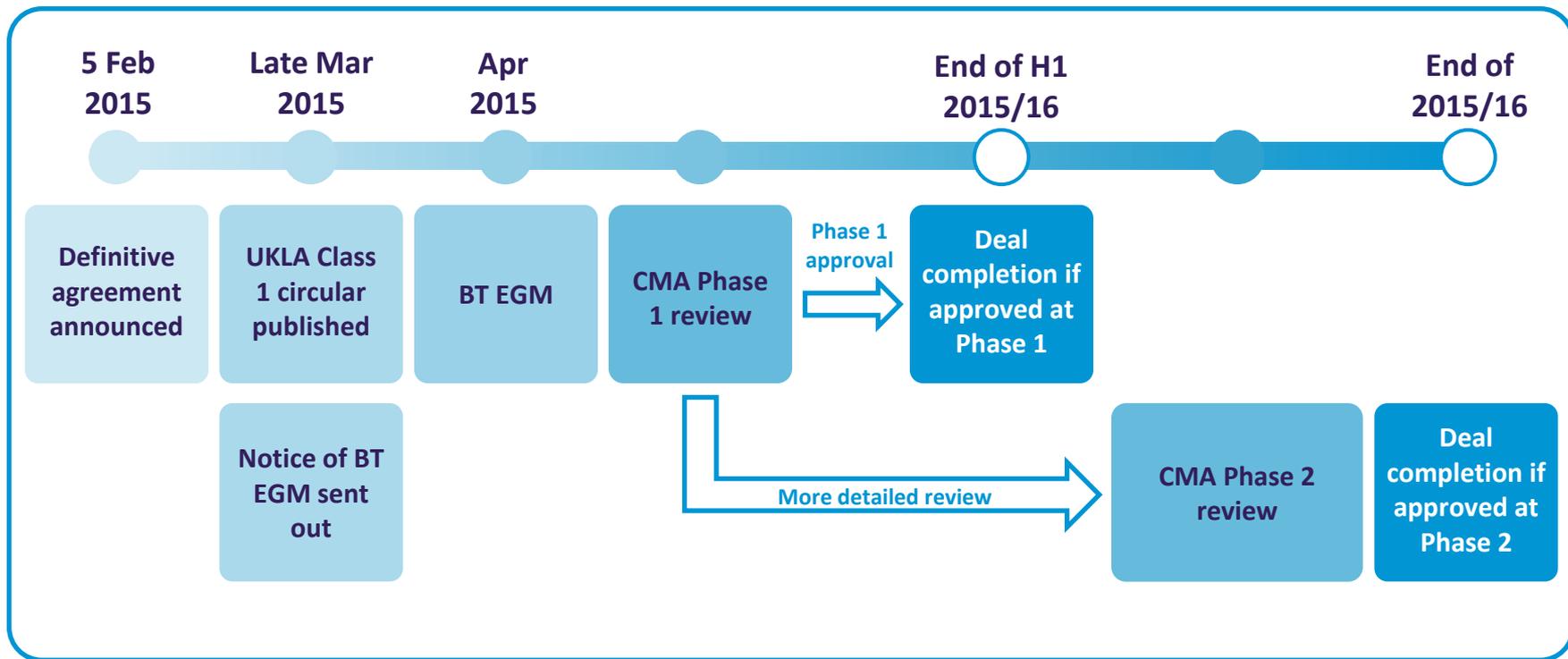
Support pension
fund

Progressive
dividends



¹ Calculated using BT net debt at 31 December 2014, and EE financials for the 12 months to 31 December 2014. EE net debt at 31 December 2014 is adjusted for other debt-like items.

Indicative timeline of deal completion

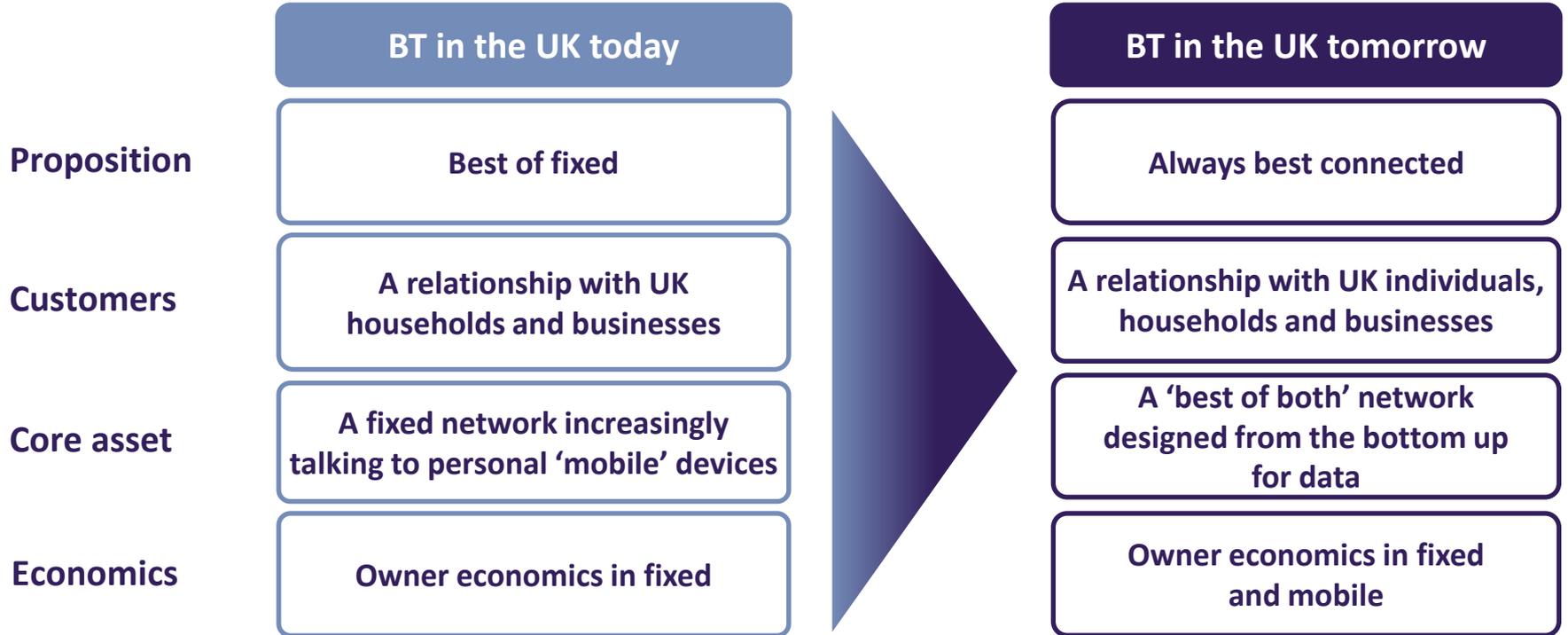




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Gavin Patterson, Chief Executive

In summary



Deal provides attractive opportunity to generate considerable shareholder value



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Q&A

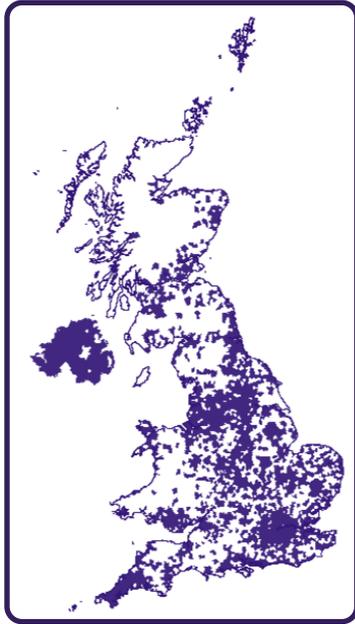


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Appendix

Fibre and 4G coverage

BT – c.75% UK fibre coverage



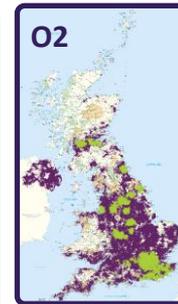
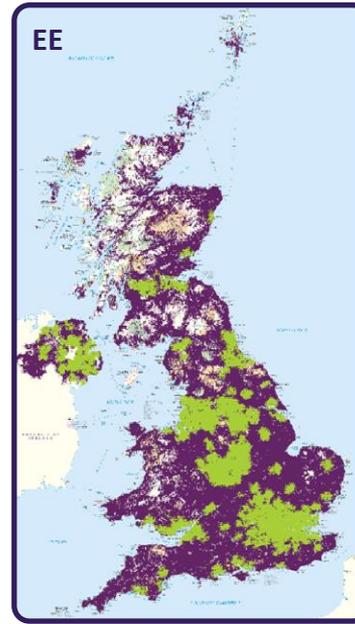
■ Fibre coverage

- ▶ BT is working with the government to help take fibre to 95% of UK

Source: Company data, shows position as at Jan 2015

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EE – leading 4G and 3G coverage



■ 3G coverage

■ 4G coverage

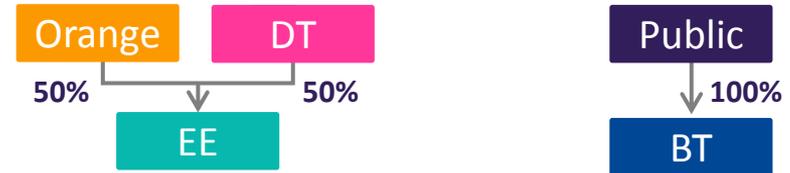
- ▶ EE aims to increase 4G coverage to 98% by the end of 2015

Source: Ofcom: data as at June 2014, published November 2014. Three not shown as Ofcom omitted data on Three's 4G coverage from its report

Transaction detail¹

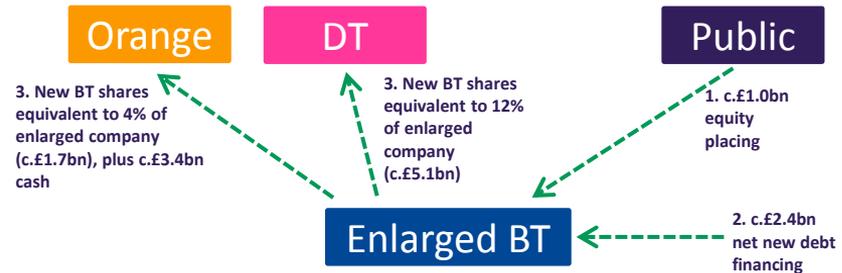
Pre-Transaction structure

- ▶ EE owned equally by Orange and DT
- ▶ BT 100% owned by public



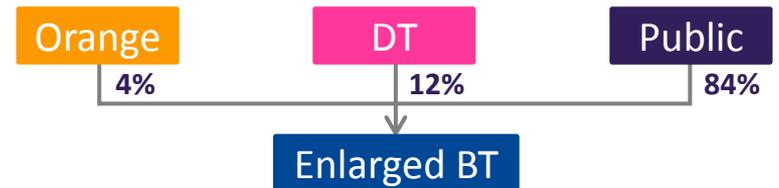
Transaction structure

- ▶ EE acquired for Enterprise Value of £12.5bn
 - c.£10.2bn to be paid to Orange and DT, with EE Net Debt of c.£2.3bn² taken on by enlarged group
- ▶ Bridge financing in place at deal announcement



Final ownership structure

- ▶ New shares issued to Orange and DT at closing



¹ Illustrative, calculated using BT's closing share price on 4 February 2015

² EE net debt as at 31 December 2014, adjusted for other debt-like items

Next steps

Required approvals

- ▶ BT Board of Directors will seek shareholders' approval
 - subject to UKLA filings, EGM is expected to be held in April
- ▶ We anticipate that the Transaction would need to be cleared by the Competition and Markets Authority (CMA)
 - we do not expect to require clearance from the EC
 - we do not require clearance from other UK authorities - Ofcom will advise the CMA
 - potentially two stages of CMA review
 - Phase 1, which takes c.8 weeks from notification, with a subsequent remedies review if required
 - if Transaction not approved at Phase 1, a Phase 2 inquiry would take a further c.24 weeks to complete

Break fee

- ▶ BT has agreed to pay DT and Orange a break fee of £250m (in aggregate) if the directors: i) fail to seek shareholder approval, ii) fail to recommend the Transaction, or iii) recommend an alternative Transaction