

A better business



A better future

BT Group plc

Q4/full year 2012 results

10 May 2012

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Sir Michael Rake, Chairman

Review of the year

- ▶ Another year of delivery
- ▶ Continued to invest in our business
- ▶ Agreed 2011 pension funding valuation
- ▶ Improved credit rating
- ▶ Supported our communities

Full year 2012 group results

Revenue¹	£19,307m	4%	
- underlying revenue ex transit		1.9%	
EBITDA¹	£6,064m	3%	
Profit before tax¹	£2,421m	16%	
EPS¹	23.7p	13%	
Free cash flow²	£2,522m	13%	
Net debt³	£9,082m	up £266m	

¹ before specific items

² before specific items and pension deficit payments

³ after £2.0bn lump sum pension deficit payment made in March 2012

Shareholder returns

- ▶ Proposed final dividend 5.7p  14%
- ▶ Full year dividend 8.3p  12%
- ▶ Dividend per share to grow at 10%-15% per year for the next three years
- ▶ Share buyback of c.£300m in current year to counteract dilution from all-employee share option plans

Three year performance

EPS¹

up 68%



Free cash flow²

more than tripled



Deficit contributions into pension fund

£3.6bn

Net debt

down £1.3bn



Total shareholder return³

up 224%



¹ before specific items and BT Global Services contract and financial review charges in 2009

² before specific items and pension deficit payments

³ source: Datastream

London 2012

80,000 connections across 94 locations

Up to 60Gb of information carried each second

1,800 wireless access points

5,500km of internal cabling

16,500 telephone lines

14,000 mobile SIM cards

10,000 cable TV outlets

642,000 man-hours

Over 800 people on the ground at Games' Time



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Ian Livingston, Chief Executive







2012 Results vs. outlook

	Outlook at May 2011	2012 Results	
Underlying revenue ex transit¹	Down 2% to flat	Down 1.9%	✓
EBITDA¹	2012 >£5.9bn	£6.1bn	✓
	2013 >£6bn	one year early	
Free cash flow²	>£2.2bn	£2.5bn	✓

¹ before specific items

² before specific items and pension deficit payments

Q4 2012 group results

Revenue¹	£4,875m	4%	
- underlying revenue ex transit		2.0%	
EBITDA¹	£1,609m	4%	
Profit before tax¹	£690m	13%	
EPS¹	6.8p	10%	
Free cash flow²	£909m	47%	

¹ before specific items

² before specific items and pension deficit payments

Q4/FY 2012 line of business overview

Global Services

	Q4 2012	Change ¹	FY 2012	Change ¹
Revenue	£1,996m	(4)%	£7,809m	(3)%
- underlying ex transit		(2)%		(1)%
EBITDA	£186m	1%	£627m	6%

- ▶ Q4 underlying revenue ex transit down 2%
 - challenging environment
- ▶ Q4 underlying net operating costs ex transit down 3%
 - intensifying our efforts, more opportunities
- ▶ Q4 EBITDA up 1%
 - up 4% ex FX and disposals
- ▶ FY operating cash flow £183m

¹ prior year restated for the impact of customer account moves

Q4/FY 2012 line of business overview

Global Services – a global leader

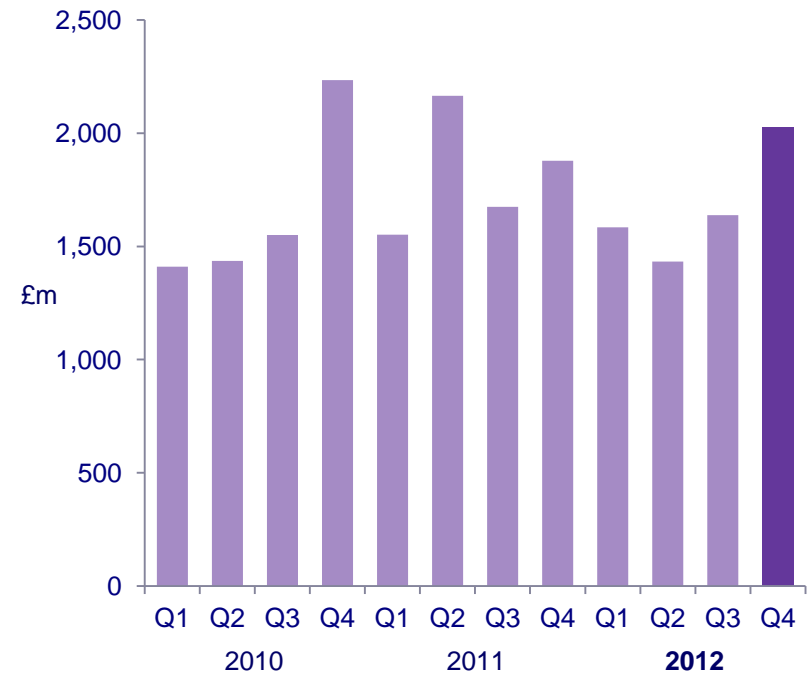
► Order intake

- Q4 £2.0bn, up 8%
- strong order volumes
 - only one order >£100m in Q4
- FY £6.7bn

► Q4 contracts

- Anglo American
- NATO
- National Air Traffic Services
- Etihad

Quarterly order intake



Q4/FY 2012 line of business overview

Global Services – a global leader

Asia Pacific

BT in Asia Pacific



- ▶ Operates in 18 countries
- ▶ c.200 new hires
- ▶ Expanding MPLS to 43 PoPs in 16 countries
- ▶ Contracts with CLSA and in Australian health sector

Latin America



- ▶ Operates in 22 countries
- ▶ c.200 new hires planned
- ▶ Expanding Ethernet coverage from 5 to 26 cities
- ▶ Contract with Correios

Turkey, Middle East & Africa



BT in Turkey, Middle East & Africa

- ▶ Operates in 45 countries
- ▶ c.150 new hires planned
- ▶ Expanding Ethernet coverage to 21 further cities
- ▶ Contract with Anglo American

▶ Across the 3 regions

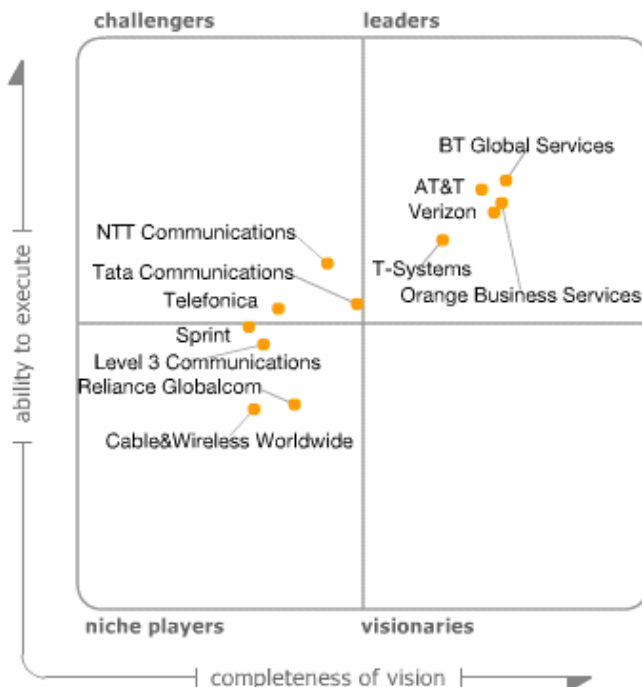
- FY revenue up 16%
- FY order book up >60%
- Aim to add c.£500m of revenue over medium term

Q4/FY 2012 line of business overview

Global Services – a global leader

▶ A leader in Gartner's Network Service Provider Magic Quadrants

Global – April 2012¹



Pan-European – April 2012²



¹ Gartner, Global Network Service Provider Magic Quadrant, Neil Rickard and Robert Mason, April 2012

² Gartner, Pan-European Service Provider Magic Quadrant, Neil Rickard and Katja Ruud, April 2012

This Magic Quadrant graphic was published by Gartner, Inc. as part of a larger research note and should be evaluated in the context of the entire report. The Gartner report is available upon request from BT. Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

Q4/FY 2012 line of business overview

Retail

	Q4 2012	Change ¹	FY 2012	Change ¹
Revenue	£1,861m	(3)%	£7,393m	(4)%
EBITDA	£486m	2%	£1,830m	3%

▶ Q4 revenue down 3%

Consumer

2%



▶ Best quarterly performance for 2 years

Business

6%



▶ Lower IT hardware trade sales

Enterprises²

2%



▶ Good performance in BT Conferencing

Ireland²

4%



▶ Large government and corporate contracts in NI and ROI
▶ 89% fibre coverage in NI

▶ Q4 net operating costs down 5%

¹ prior year restated for the impact of customer account moves

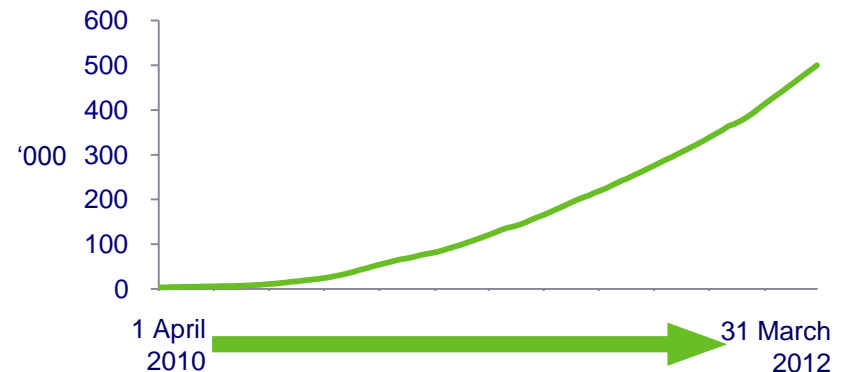
² excluding FX

Q4/FY 2012 line of business overview

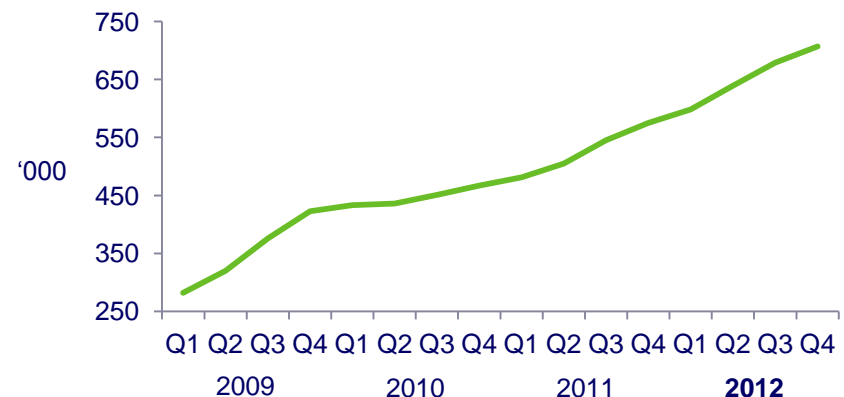
Driving broadband-based consumer services

- ▶ FY active consumer line loss 30% better YoY
- ▶ 44% share of broadband¹ net adds in Q4
 - c.600,000 new broadband customers added in year
- ▶ Currently >550,000 BT Infinity customers
 - Q4 BT Infinity net adds 131,000, up 38% vs Q3
- ▶ BT Vision base >700,000 at Q4
 - up 23% in year
 - rolling out Vision 2.0
- ▶ Consumer ARPU up 5% YoY to £343

BT Infinity customer base



BT Vision customer base



¹ DSL, LLU and fibre, excluding cable

Q4/FY 2012 line of business overview

Being the 'Brand for Business' for UK SMEs

- ▶ SME market remains tough
- ▶ Increased focus on higher margin products and services
 - moving away from IT hardware trade sales
- ▶ Improved core metrics
 - line loss of 39,000 lowest level for >4 years
 - outperforming market in calls and lines

BT market share in business calls & lines¹



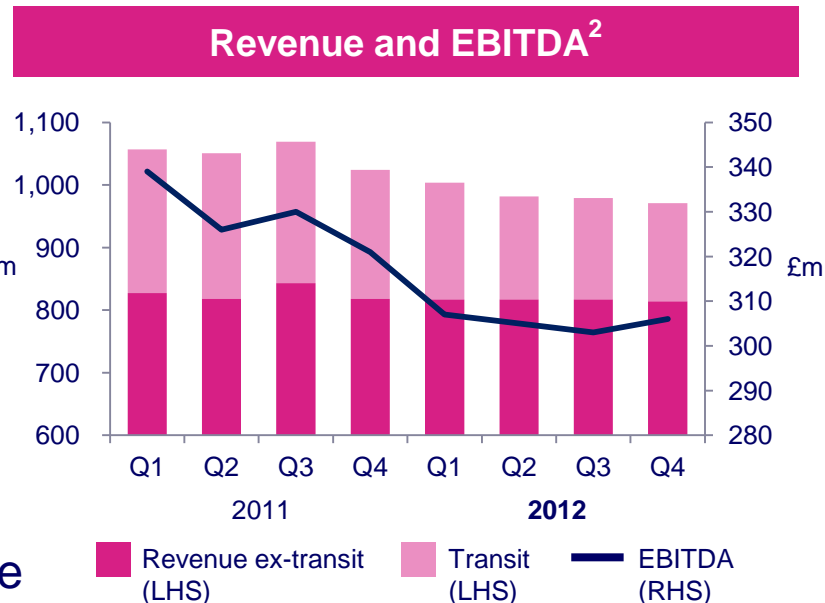
¹ Ofcom Telecommunications Market Data Update Q4 2011

Q4/FY 2012 line of business overview

Wholesale

	Q4 2012	Change ¹	FY 2012	Change ¹
Revenue	£958m	(6)%	£3,923m	(7)%
- underlying ex transit		(2)%		(2)%
EBITDA	£293m	(9)%	£1,208m	(8)%

- ▶ Q4 underlying revenue ex transit down 2%
 - down 1% ex retrospective regulatory charge
 - FY total order intake c.£750m
- ▶ Q4 net operating costs down 5%
 - up 3% ex transit
 - lower labour costs offset by product mix and network migration costs
- ▶ Q4 EBITDA down 5% ex regulatory charge



¹ prior year restated for the impact of customer account moves

² prior year restated for the impact of customer account moves, Q4 2012 excludes retrospective regulatory charge

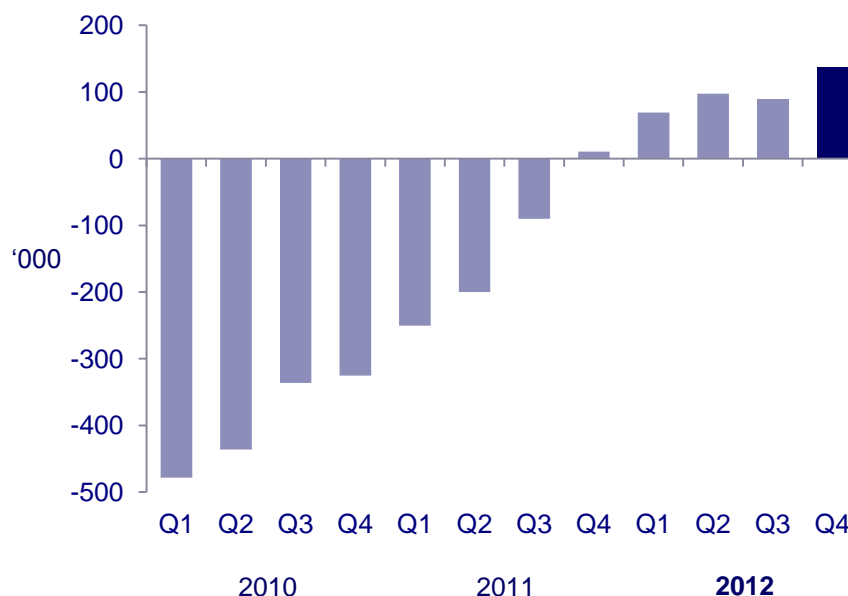
Q4/FY 2012 line of business overview

Openreach

	Q4 2012	Change ¹	FY 2012	Change ¹
Revenue	£1,301m	4%	£5,136m	4%
EBITDA	£603m	12%	£2,299m	8%

- ▶ Q4 revenue up 4%
 - growth in Ethernet, LLU and fibre
 - Q4 copper line growth 74,000
 - >1m broadband users added in year
- ▶ Q4 net operating costs down 3%
- ▶ Q4 EBITDA up 12%
- ▶ New WLR/LLU/ISDN30 charge controls will impact 2013 & 2014

Rolling 12 month change in copper lines



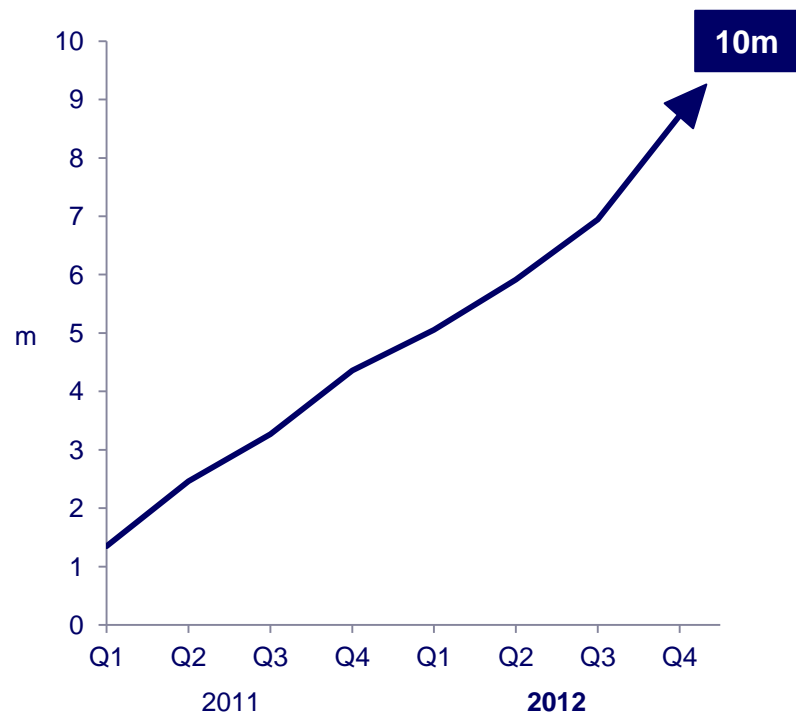
¹ prior year restated for the impact of customer account moves

Q4/FY 2012 line of business overview

Fibre

- ▶ 10m premises now passed with fibre
 - NI and Cornwall progressing well
- ▶ Potential for fibre to reach c.90% of premises in 2017
- ▶ BDUK
 - March: Rutland, preferred supplier
 - April: Lancashire, won contract
- ▶ Fibre innovations
 - FTTC speeds doubled in April
 - 330Mbps FTTP product to launch shortly
 - 'FTTP on demand' trials progressing well
- ▶ Fibre-only exchange programme
 - pilot in Deddington

Number of premises passed with fibre



Pension funding valuation

- ▶ Funding valuation finalised
- ▶ Final funding deficit of £3.9bn at 30 June 2011
- ▶ Recovery plan
 - £2.0bn lump sum payment made in March
 - 2 payments of £325m in March 2013 & 2014
 - 7 annual payments of £295m from March 2015 to 2021

Pension IAS19 valuation

- ▶ IAS19 valuation at 31 March 2012 £1.9bn net of tax
 - nominal discount rate 4.95%, new methodology reflects best practice
 - RPI inflation assumption 3.05%
 - CPI 0.75% below RPI for 3 years, 1.2% below thereafter

Outlook revenue¹

- ▶ Improving trend in 2013 & 2014, despite:
 - challenging economic environment
 - c.£100m-£200m YoY impact on group revenue from WLR/LLU/ISDN30 charge controls in 2013 and again in 2014
 - withdrawal from IT hardware trade sales

¹ underlying revenue excluding transit

Outlook EBITDA¹

▶ Growth in 2013 & 2014

- solid EBITDA growth in Global Services in 2013
- regulatory impact in Openreach

¹ before specific items

Outlook normalised free cash flow¹

2011 actual	2012 actual	2013 outlook	2014 outlook
£2,076m	£2,307m	Broadly level	>£2.4bn

- ▶ Global Services operating cash flow lower in 2013, returning to growth in 2014

¹ before specific items, pension deficit payments and cash tax benefit of pension deficit payments

Building a better future

- ▶ Driving broadband-based consumer services
- ▶ Being the 'Brand for Business' for UK SMEs
- ▶ BT Global Services – a global leader
- ▶ The wholesaler of choice
- ▶ The best network provider
- ▶ A responsible and sustainable business leader





Bringing it all together

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BT Group plc

Tony Chanmugam, Group Finance Director

Q4 2012 income statement

£m	Q4 2012	Change	Key points
Revenue¹	4,875	(4)%	<ul style="list-style-type: none"> ▶ transit revenue down £47m ▶ £27m impact from disposals
- underlying ex transit		(2.0)%	<ul style="list-style-type: none"> ▶ macro challenges, lower IT hardware sales, regulatory charge
EBITDA¹	1,609	4%	<ul style="list-style-type: none"> ▶ costs down 7%
Operating profit¹	863	9%	
Profit before tax¹	690	13%	<ul style="list-style-type: none"> ▶ higher EBITDA, lower interest
Tax ¹	(166)	26%	<ul style="list-style-type: none"> ▶ 24.1% effective rate
EPS¹	6.8p	10%	
Specific items	107	n/m	<ul style="list-style-type: none"> ▶ includes tax credit from change in corporation tax rate

¹ before specific items

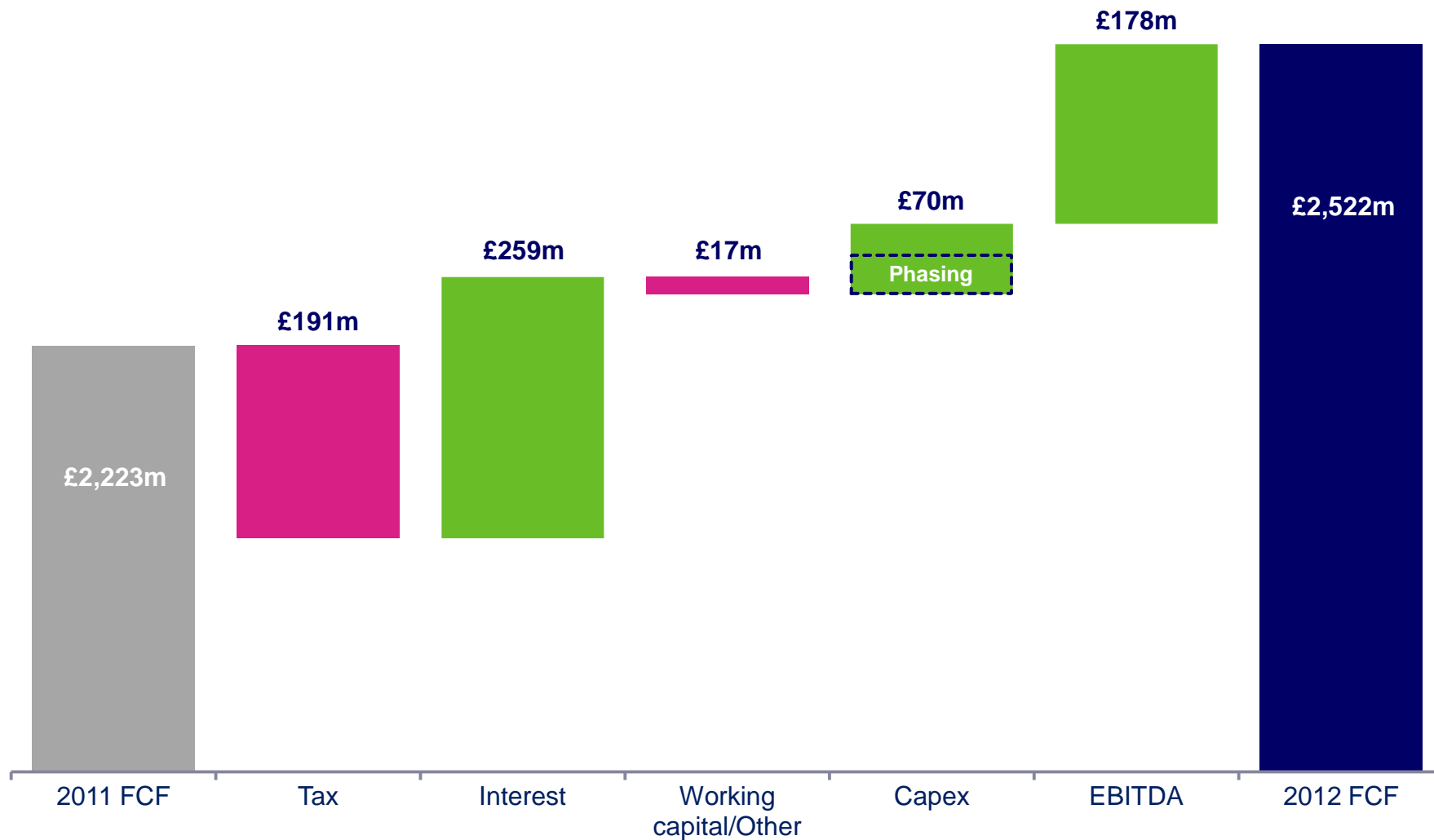
Q4 2012 free cash flow

£m	Q4 2012	Change	Key points
EBITDA¹	1,609	58	
Capex	(685)	63	▶ phasing of payments
Interest & tax	(312)	7	▶ lower debt, tax higher
Working capital & other	297	162	▶ working capital phasing in year ▶ lower regular pension contributions
Adjusted FCF²	909	290	
Specific Items	(53)	20	▶ GS restructuring & property rationalisation
Reported FCF	856	310	

¹ before specific items

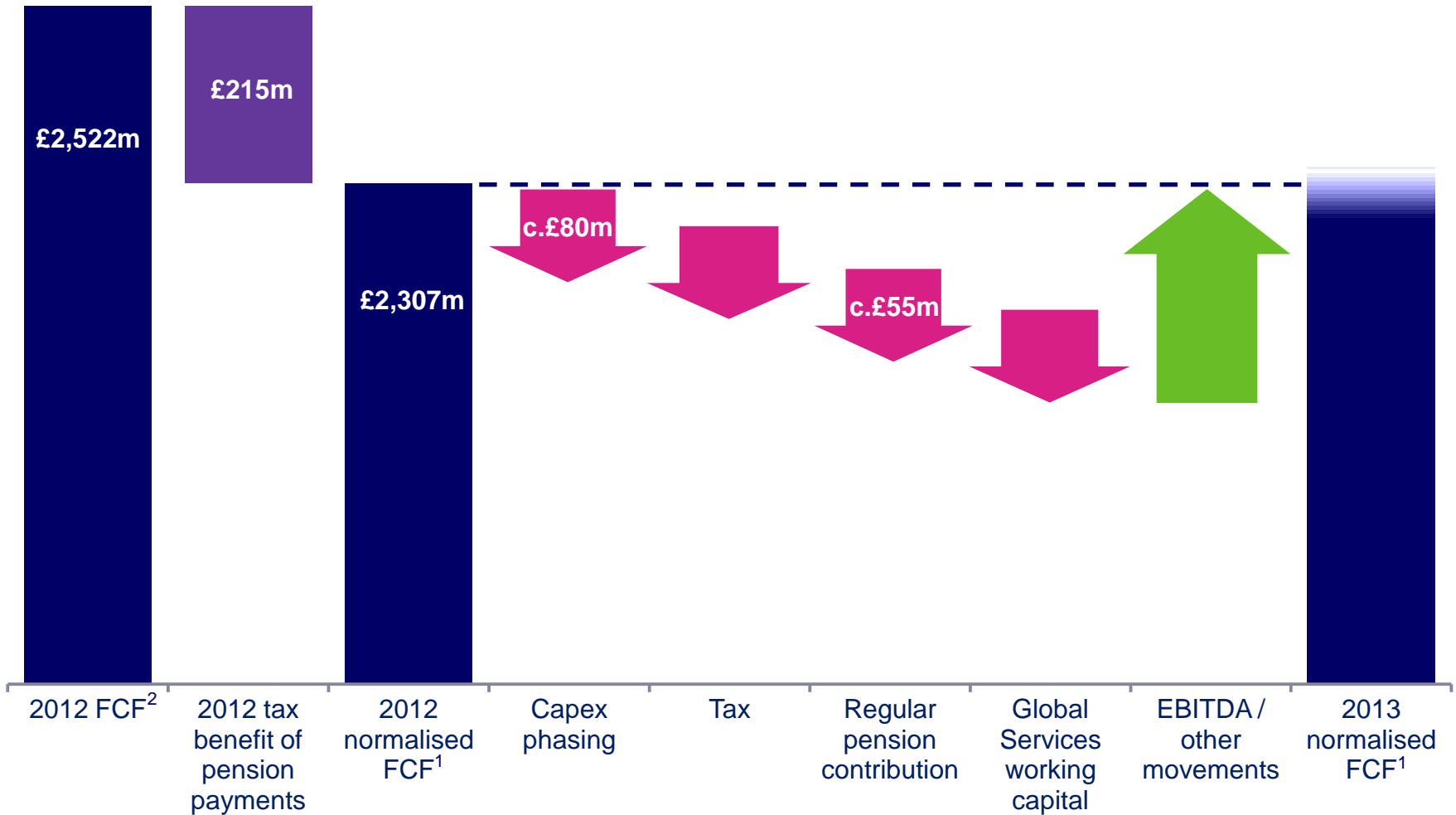
² before specific items and pension deficit payments

FY 2012 free cash flow¹



¹ before specific items and pension deficit payments

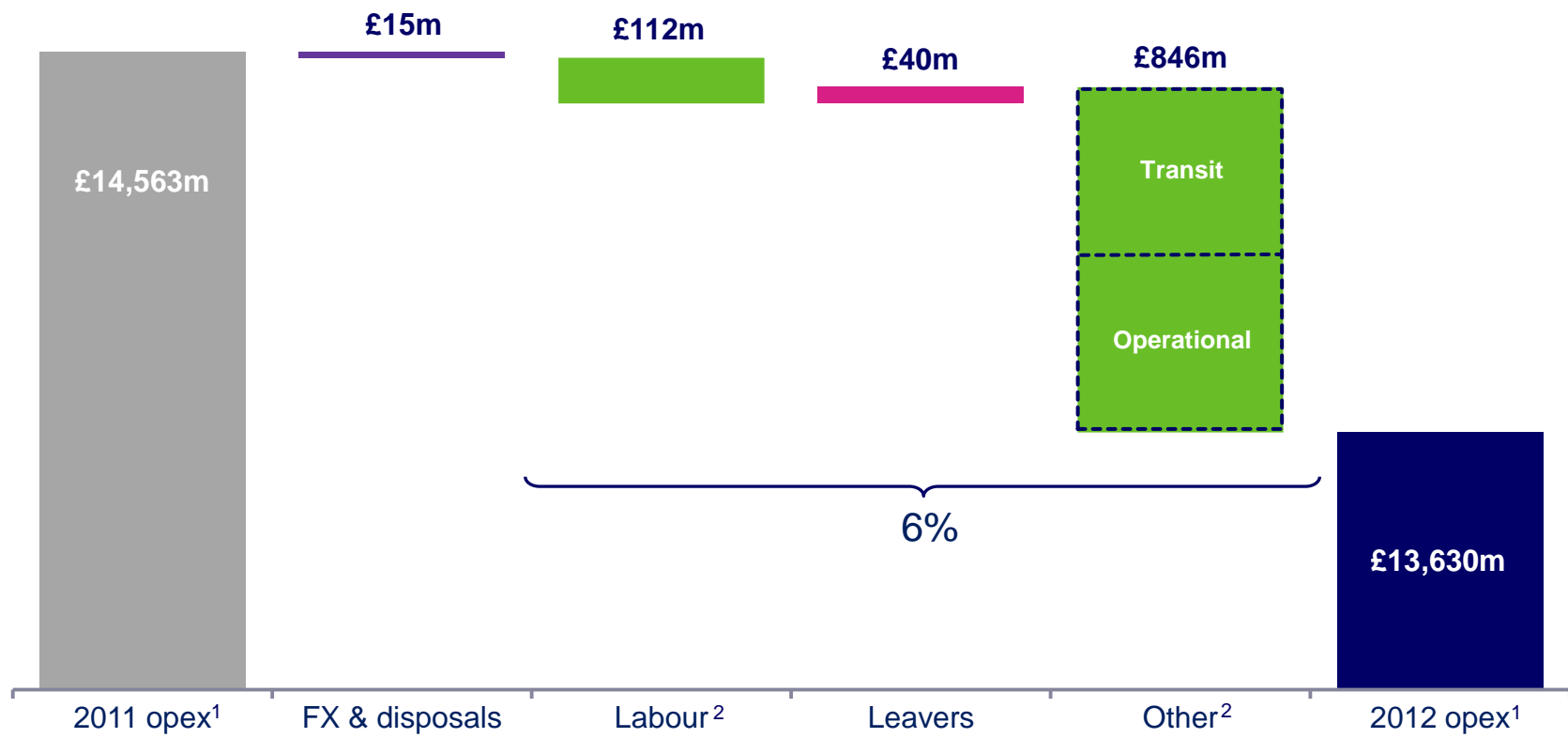
FY 2013 normalised free cash flow¹



¹ before specific items, pension deficit payments and cash tax benefit of pension deficit payments

² before specific items and pension deficit payments

FY 2012 cost transformation



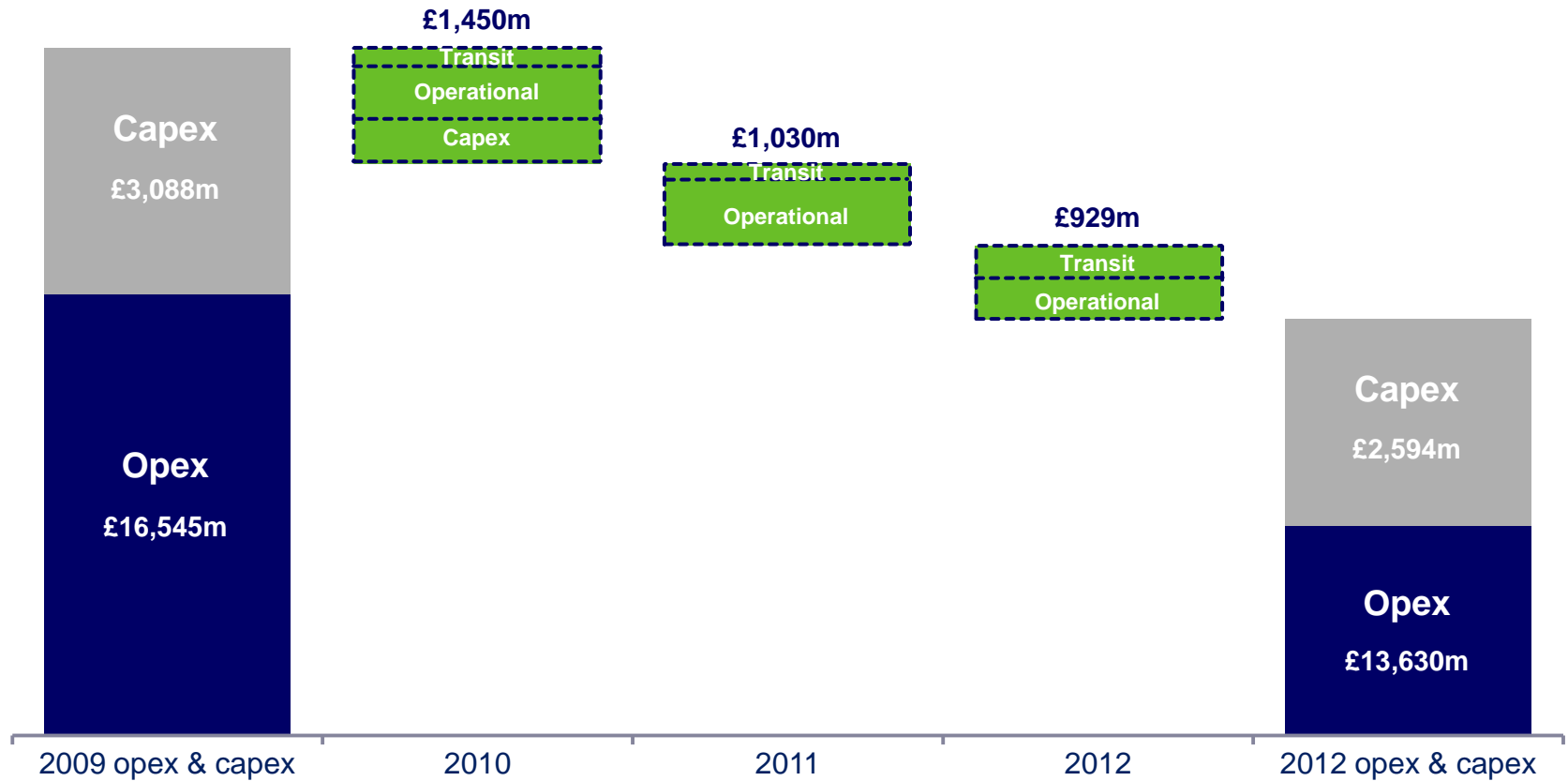
£242m opex¹ reduction in Q4

£933m opex¹ reduction in FY

¹ before specific items, depreciation & amortisation and other operating income

² adjusted for labour related costs of £87m in the year which were classified as Other costs in 2011

Three year opex¹ and capex reduction

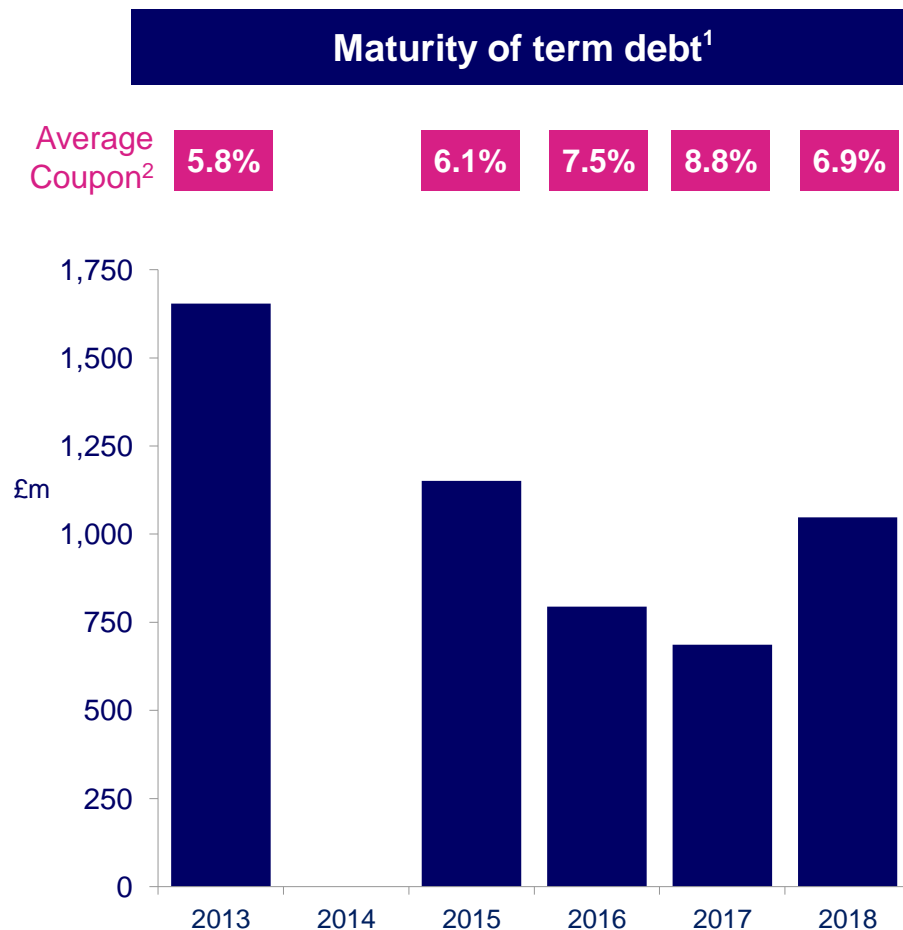


Opex and capex reduced by £3.4bn in the last three years

¹ before specific items, depreciation & amortisation and other operating income and BT Global Services contract and financial review charges in 2009

Debt and liquidity

- ▶ Net debt of £9.1bn at March 2012
 - reflects £2bn pension payment
- ▶ £1.7bn term debt maturing in 2013
- ▶ Cash and investments of £0.8bn at March 2012
- ▶ Committed facility of £1.5bn
- ▶ Continue to assess opportunities in debt market
- ▶ Targeting BBB+ credit rating in medium term



¹ carrying value at 31 March 2012, assuming no renewal or new facilities. Carrying value reflects final principal repayments at hedged rates

² weighted average coupon of term debt maturing in year (including swap rates), based on carrying value of debt at hedged rates at 31 March 2012

FY 2013 other items

▶ Revenue¹

- improving FY trend weighted to H2
- transit revenue reduction c.£200m-£300m

▶ Capex

- c.£2.6bn

▶ Tax

- P&L effective tax rate of c.23%
- pension deficit payments lower cash tax by c.£560m

¹ underlying revenue ex transit

Financial strategy to 2014

2012



2014

Improving revenue trends

Grow EBITDA

Grow free cash flow



**Invest in
business**



**Reduce net
debt**



**Support
pension fund**



**Progressive
dividends**

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Q&A