

A better business



A better future

BT Group plc

**Q4/full year 2012/13 results
and business update – Part 1
10 May 2013**

Forward-looking statements caution

Certain statements in these presentations 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: current and future years' outlook, including revenue trends, EBITDA, free cash flow growth and capital expenditure; our restructuring programme, cost base reduction and restructuring costs; shareholder returns including increasing dividends and share buyback; our investment in BT Sport; the pension scheme operating charge, interest expense and regular cash contributions; the effective tax rate; our fibre roll out programme reach, and take-up; and the impact of regulatory decisions and outcomes of appeals.

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BT Group plc

Sir Michael Rake, Chairman

Business update agenda

09.00 – 10.30	Q4/FY 2012/13 results, group strategy + Q&A	Sir Michael Rake, Ian Livingston & Tony Chanmugam
10.30 – 10.50	Break	
10.50 – 11.45	Cost Transformation Technology, Service & Operations Q&A	Tony Chanmugam Clive Selley
11.45 – 12.40	BT Retail + Q&A	Gavin Patterson
12.40 – 13.25	Lunch and product demonstrations	
13.25 – 14.20	BT Wholesale Openreach Q&A	Nigel Stagg Liv Garfield
14.20 – 15.10	BT Global Services + Q&A	Luis Alvarez
15.10 – 15.15	Closing remarks	Ian Livingston

Review of the year

- ▶ Good operational and financial performance
- ▶ Further progress on transforming our cost base
- ▶ More to do on customer service
- ▶ Our investments are positioning us well for the future
- ▶ Progress enables us to reward shareholders

Full year 2012/13 group results¹

Revenue	£18,253m	(5%)	▼
- underlying ex transit		(3%)	▼
<hr/>			
EBITDA	£6,181m	2%	▲
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EPS	26.6p	12%	▲
<hr/>			
Normalised² free cash flow	£2,300m	flat	➤
<hr/>			

¹ before specific items

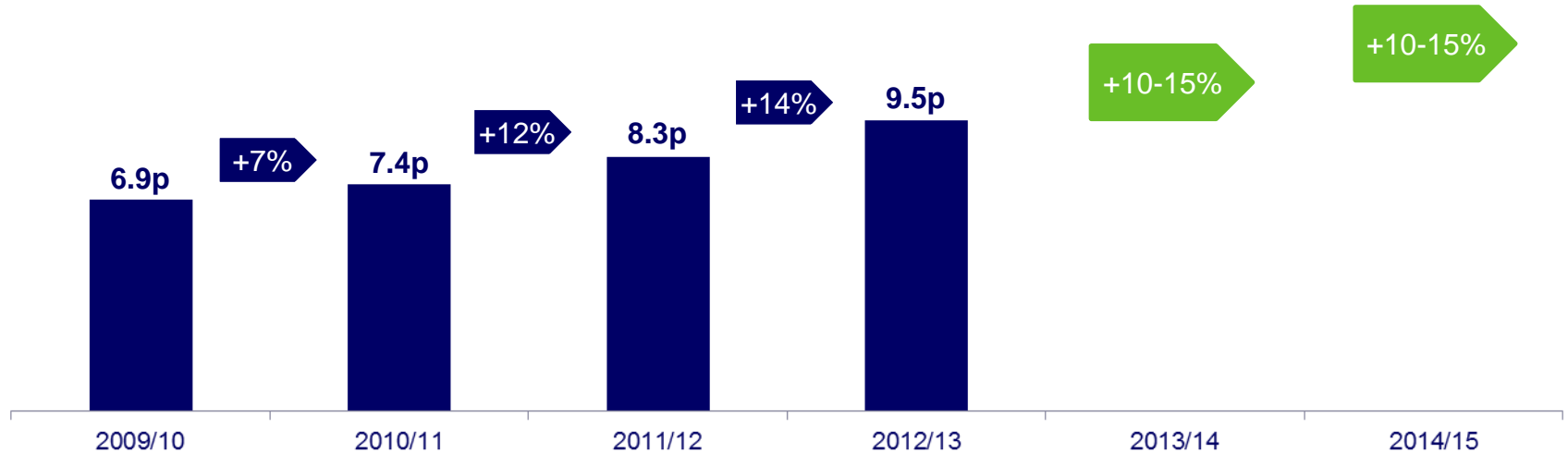
² before cash specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments

2012/13 results vs. outlook

		Outlook	2012/13 results	
Underlying revenue ex transit	May 2012	Improving trend in FY		✗
	Nov 2012	Improved trend for H2 vs. H1	Down 1.8% in H2 vs. down 4.4% in H1	✓
EBITDA ¹		Growth vs. 2011/12	Growth of 2%	✓
Normalised free cash flow		Broadly level with £2,307m in 2011/12	£2,300m	✓

Shareholder returns progressive dividends

Dividend per share



- ▶ 6.5p proposed final dividend, up 14%
- ▶ Completed share buyback of c.£300m in 2012/13
 - buyback of c.£300m p.a. in 2013/14 & 2014/15 to counteract dilution from all-employee share plans

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Tony Chanmugam, Group Finance Director

Q4 2012/13 income statement

£m	Q4 2012/13	Change	Key points
Revenue¹	4,785	(2%)	<ul style="list-style-type: none"> ▶ transit down £81m ▶ £12m FX benefit
- underlying ex transit		0%	<ul style="list-style-type: none"> ▶ stronger performances in Global Services, Retail and Wholesale
EBITDA¹	1,673	4%	<ul style="list-style-type: none"> ▶ underlying costs ex transit down 2%
Operating profit¹	981	14%	<ul style="list-style-type: none"> ▶ depreciation down 7% due to lower capex in recent years
Profit before tax¹	833	21%	<ul style="list-style-type: none"> ▶ higher EBITDA, lower depreciation and lower interest
EPS¹	8.3p	22%	
Specific items	(58)	n/m	<ul style="list-style-type: none"> ▶ restructuring charges of £151m offset by specific tax credit of £88m

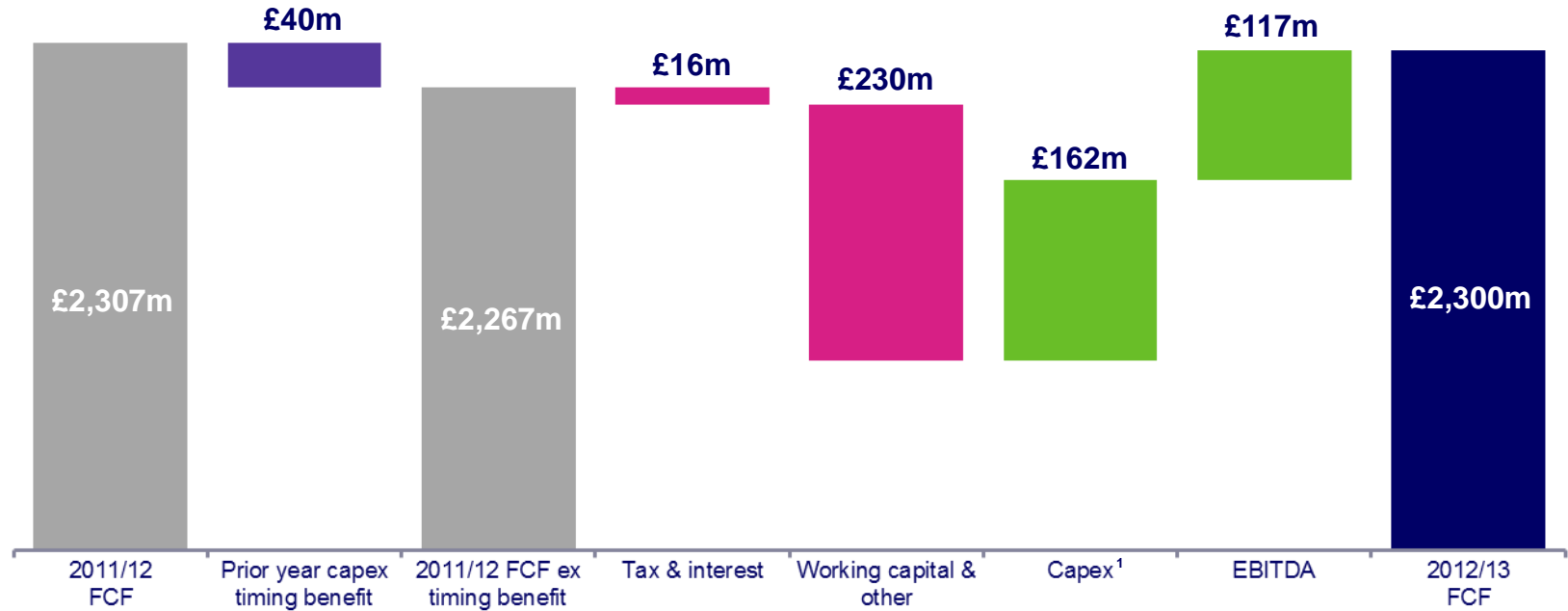
Q4 2012/13 free cash flow

£m	Q4 2012/13	Change	Key points
EBITDA¹	1,673	64	
Capex	(572)	113	▶ efficiencies in capital programmes
Interest	(140)	-	
Tax ²	(104)	68	▶ timing of tax payments
Working capital & other	444	147	▶ working capital phasing
Normalised FCF	1,301	392	
Cash tax benefit of pension deficit payments	79	79	
Telecoms licences	(202)	(202)	▶ purchase of 4G mobile spectrum
Specific items	(147)	(94)	▶ restructuring, historic Ethernet pricing
Reported FCF	1,031	175	

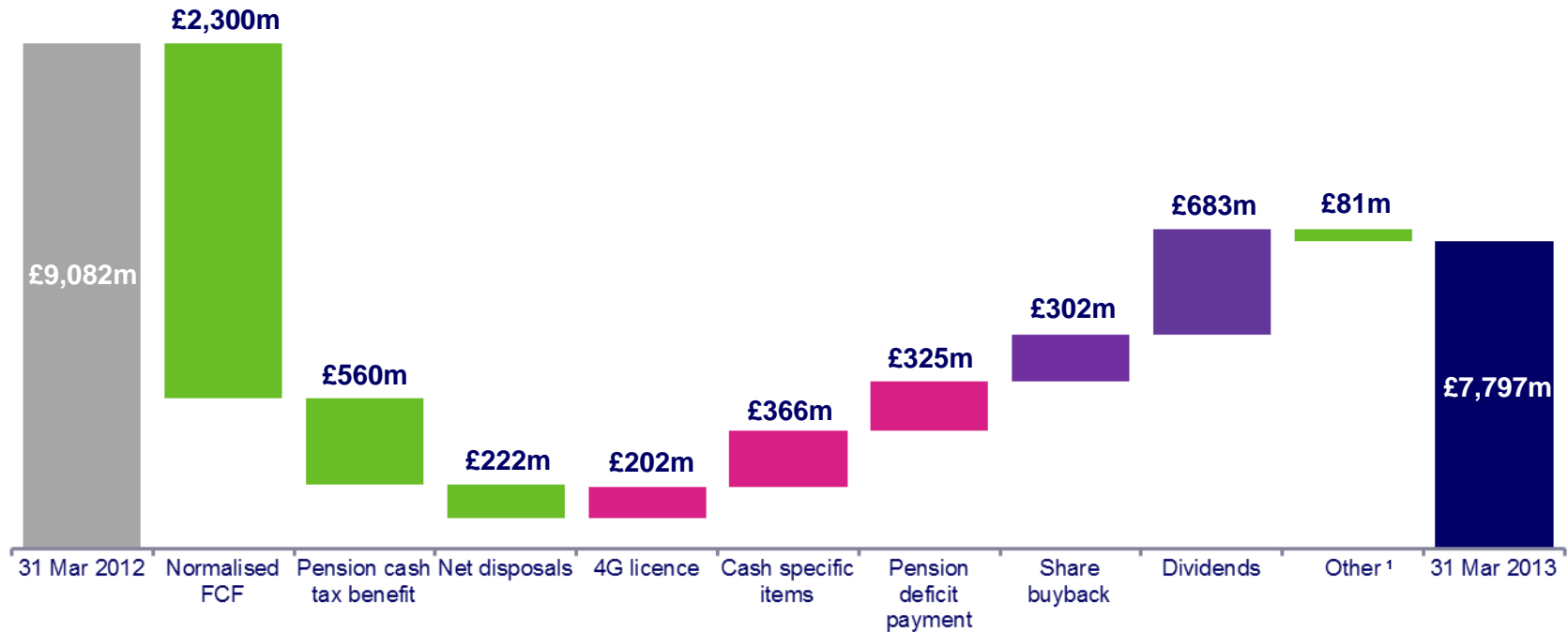
¹ before specific items

² before cash tax benefit of pension deficit payments

FY 2012/13 normalised free cash flow



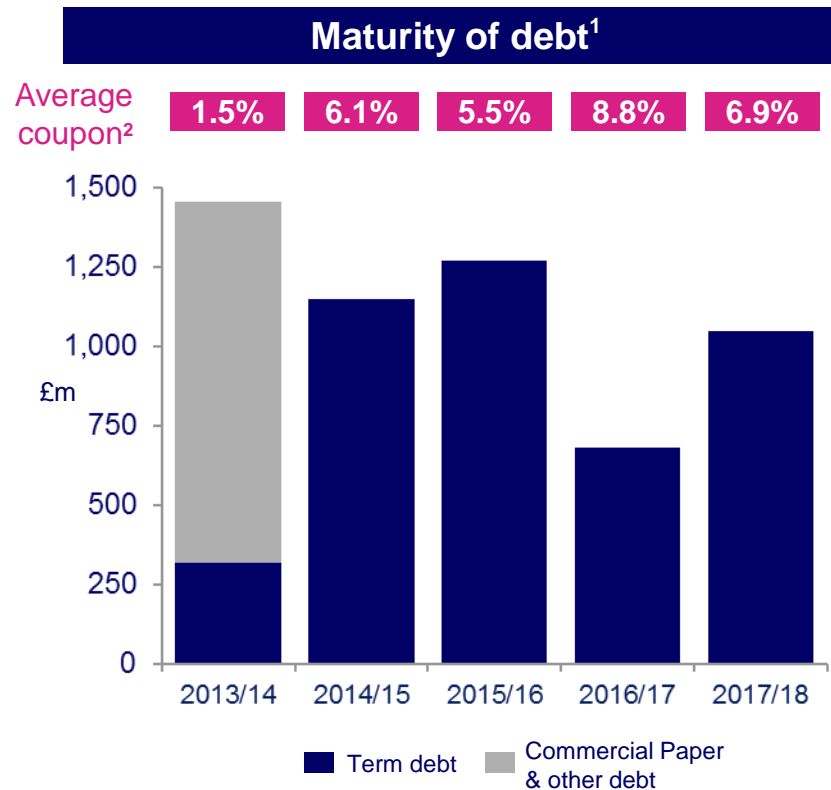
FY 2012/13 net debt



£1,285m reduction in year

Debt and liquidity

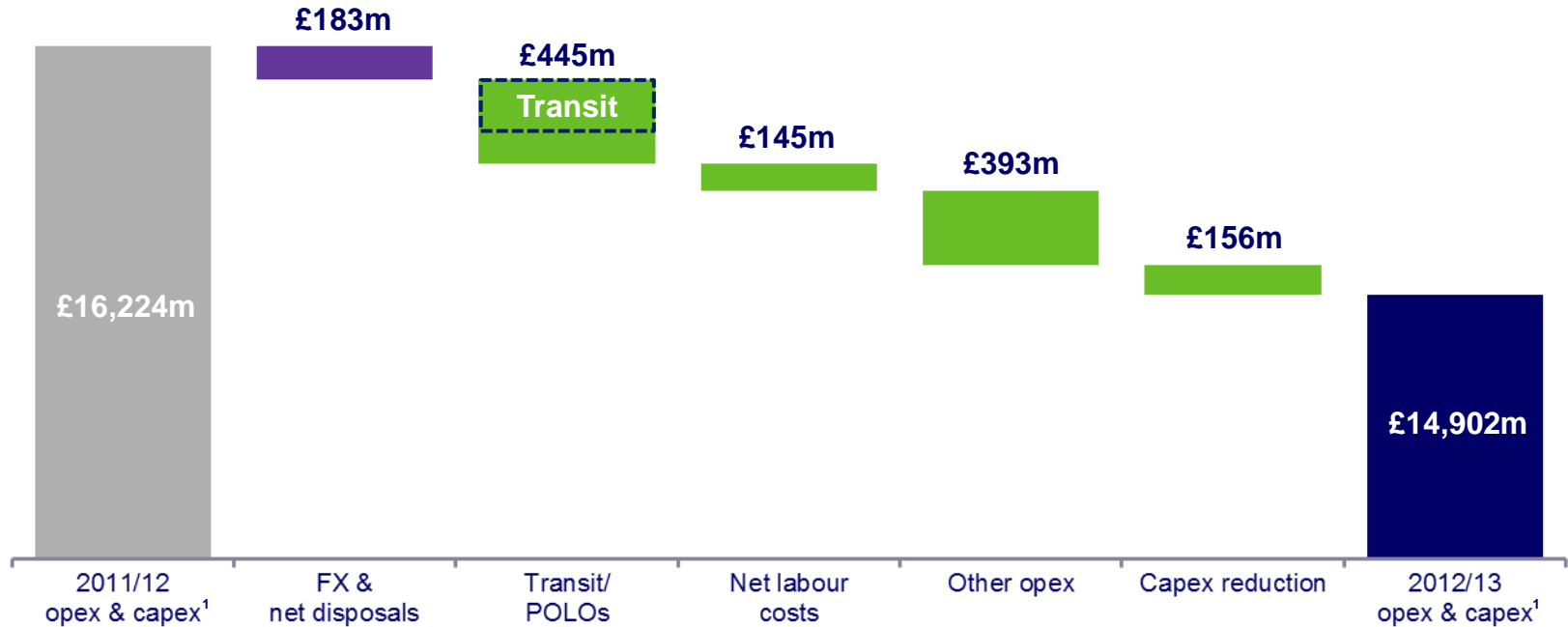
- ▶ £1.5bn debt repayable in 2013/14
 - includes term debt of £0.3bn
- ▶ Strong funding position
 - cash and investments of £1.5bn at March 2013, plus
 - available facilities of £1.5bn
- ▶ Continue to target BBB+/Baa1 credit rating



¹ carrying value at 31 March 2013, assuming no renewal or new facilities. Carrying value reflects final principal repayments at hedged rates

² weighted average coupon of debt maturing in year (including swap rates), based on carrying value of debt at hedged rates at 31 March 2013

FY 2012/13 cost transformation



>£1.3bn opex & capex reduction¹ in FY

Restructuring

- ▶ To improve efficiency and effectiveness of business
- ▶ £204m of specific restructuring costs incurred in 2012/13
 - includes amounts relating to next phase of programme
 - £151m incurred in Q4
- ▶ Further c.£400m specific restructuring costs, mostly in 2013/14
- ▶ Reduction in cost base of c.£200m per year by end of programme
 - lower opex, capex efficiencies
 - benefits increasing, approaching full run-rate in 2014/15

Regulation group EBITDA impact

	2012/13	2013/14 expected
WLR, LLU & ISDN30	c.£120m	Further c.£120m
Wholesale ladder termination decision	c.£30m	
Business Connectivity Market Review		c.£50m-£100m
Wholesale Narrowband Market Review		Reduced fixed call termination - partly offset by higher call origination prices

- ▶ Fixed Access Market Review consultation to be published in next few months

2013/14 other items

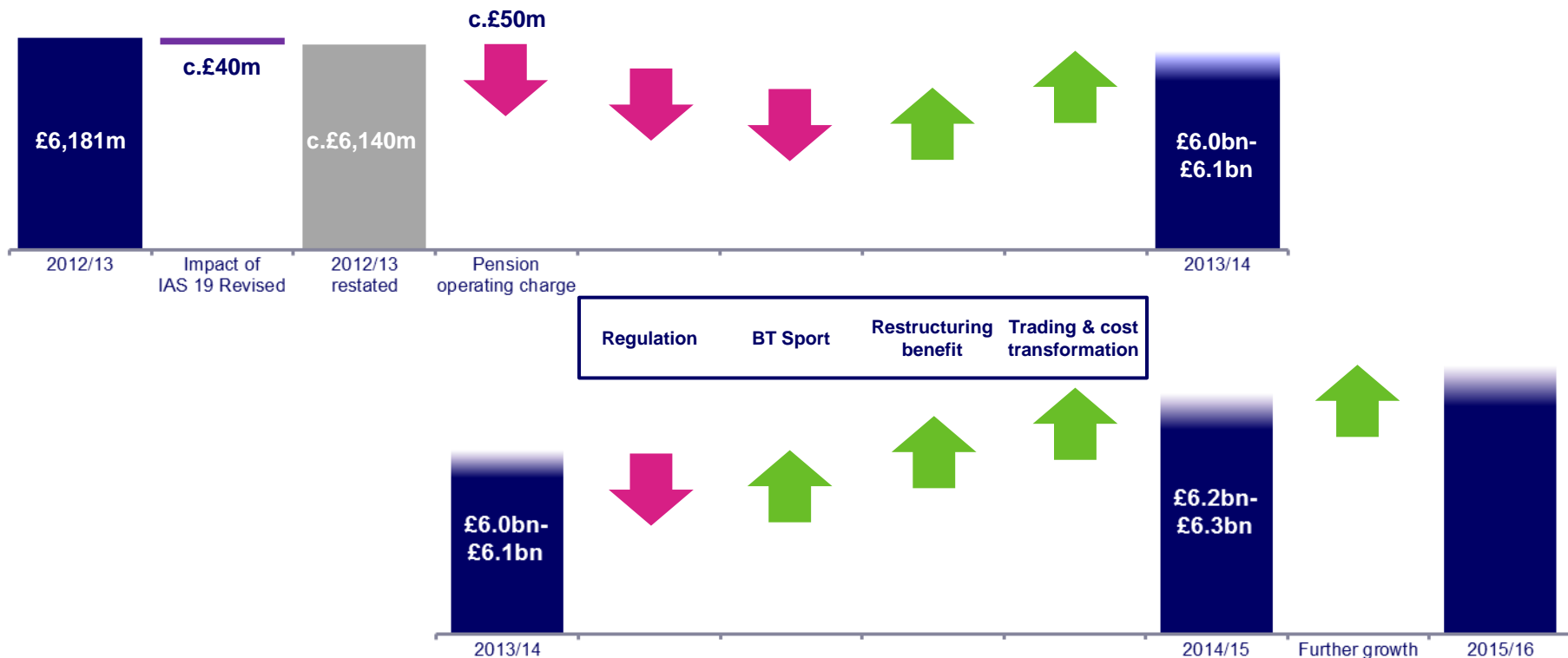
▶ Pension

	2012/13	2012/13 restated ¹	2013/14 expected
Operating charge	£361m	c.£400m	c.£450m
Pension interest specific item	£(31)m credit	c.£120m charge	c.£240m charge

- regular BTPS cash contributions of c.£210m, similar to 2012/13
- pension deficit payment of £325m, payable in March 2014

▶ Working capital/other impacted by BT Sport

FY 2012/13 – 2015/16 EBITDA¹



Financial strategy to 2015/16

2012/13



2015/16

Grow EBITDA

Grow free cash flow



**Invest in
business**



**Reduce
net debt**



**Support pension
fund**



**Progressive
dividends**

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Ian Livingston, Chief Executive

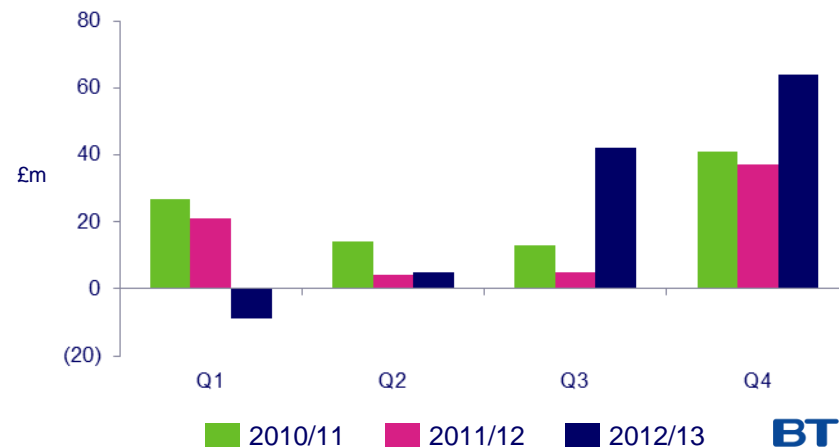
Q4/FY 2012/13 line of business overview

Global Services

	Q4 2012/13	Change	FY 2012/13	Change
Revenue	£1,933m	(3)%	£7,166m	(8)%
- underlying ex transit		(3)%		(6)%
EBITDA	£214m	15%	£626m	flat

- ▶ Improved revenue performance in Q4
- ▶ Q4 order intake £2.0bn (Q4 2011/12: £2.0bn)
- ▶ Q4 underlying operating costs ex transit down 4%
- ▶ Operating profit in FY
- ▶ FY EBITDA less capex £101m
- ▶ FY operating cash flow £6m
 - more to do

EBITDA less capex



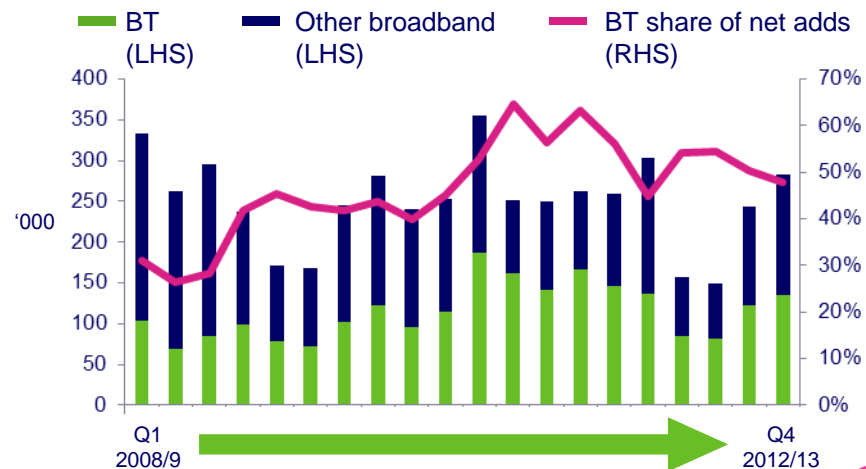
Q4/FY 2012/13 line of business overview

Retail

	Q4 2012/13	Change	FY 2012/13	Change
Revenue	£1,868m	flat	£7,228m	(2)%
EBITDA	£511m	5%	£1,935m	6%

- ▶ Q4 revenue flat
 - best performance for 18 quarters
 - improved voice trends, stronger IT services
- ▶ Q4 net operating costs down 1%
 - cost transformation offset by impact of improved revenue trend and BT Sport investment
- ▶ 136,000 broadband net adds in Q4
 - 48% market share¹
- ▶ 211,000 retail fibre net adds in Q4
- ▶ 40,000 BT TV net adds in Q4

Broadband market net adds¹



Q4/FY 2012/13 line of business overview

Wholesale

	Q4 2012/13	Change	FY 2012/13	Change
Revenue	£914m	(5)%	£3,588m	(9)%
- underlying ex transit		2%		(2)%
EBITDA	£299m	2%	£1,168m	(3)%

Financial performance

- ▶ Improved revenue performance
 - growth in MNS
- ▶ Q4 underlying revenue and net operating costs ex transit up 2%
- ▶ Q4 EBITDA up 2%

Operational performance

- ▶ Q4 order intake >£0.8bn
 - FY order intake >£2bn
- ▶ Contract re-signs and extensions with all UK MNOs in year
 - new 10 year contract with O2

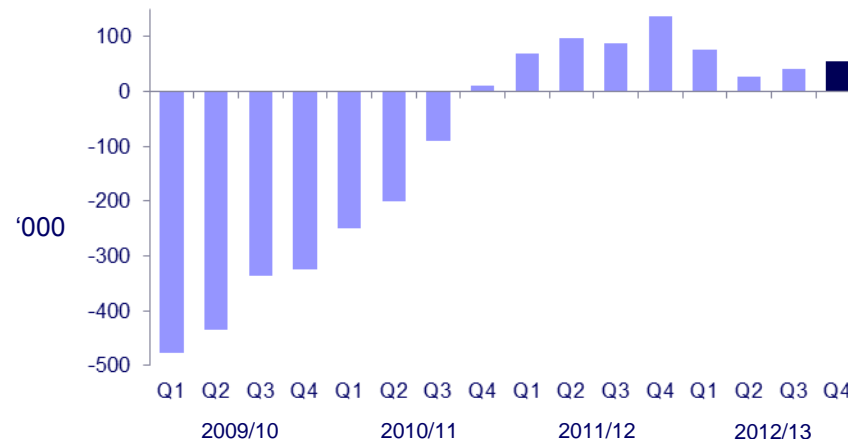
Q4/FY 2012/13 line of business overview

Openreach

	Q4 2012/13	Change	FY 2012/13	Change
Revenue	£1,267m	(3)%	£5,067m	(1)%
EBITDA	£600m	flat	£2,314m	1%

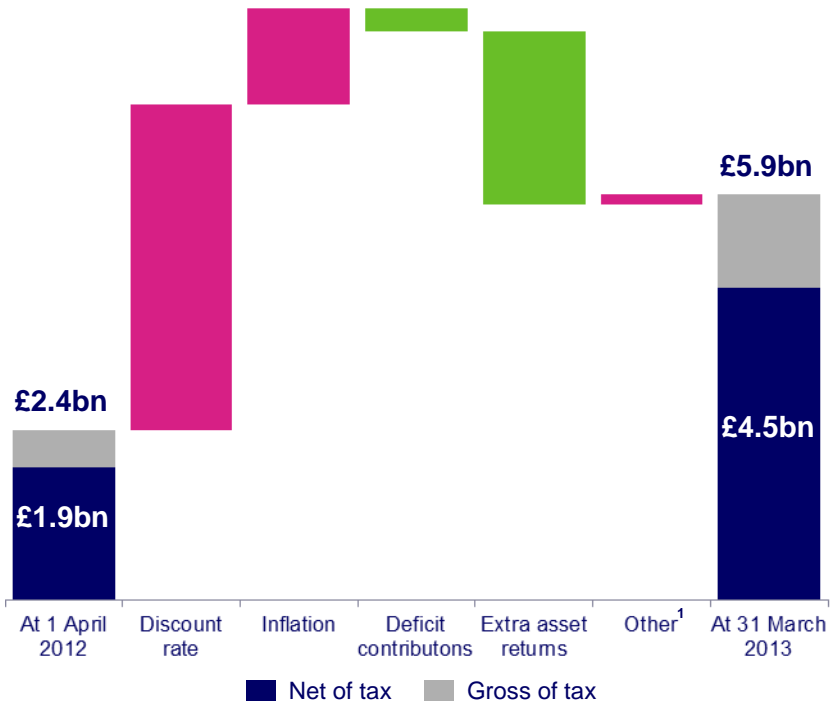
- ▶ Q4 revenue down 3%
 - c.£50m impact of regulatory price changes
 - growth in fibre & Ethernet
- ▶ Q4 net operating costs down 4%
- ▶ 88,000 increase in physical lines in Q4
- ▶ c.270,000 premises connected with fibre in Q4
 - >1.5m now connected

Rolling 12 month change in physical lines



Pension IAS 19

Change in IAS 19 deficit



- ▶ IAS 19 deficit £4.5bn net of tax
- ▶ Lowest ever real discount rate of 0.87%
- ▶ Highest ever asset value
 - up £3bn to £41.3bn
 - 12% return in year, 2x expected return

Pension funding

- ▶ BT median valuation c.£1bn surplus
 - future real returns of c.2% p.a. sufficient to meet pension liabilities
- ▶ Government introducing new objective for Pensions Regulator to consider sponsor growth
- ▶ Pensions Regulator reviewing funding valuation Code of Practice

Summary of the year

- ▶ Good progress
- ▶ Delivering growth in profits and dividends
- ▶ Making key investments for the future

More to do

3 year performance vs outlook

	Outlook at May 2010	Outcome	
Revenue	▶ Improving revenue trends from 2010/11 to 2012/13, with growth in 2012/13		✗
EBITDA¹	▶ Growth 2010/11 to 2012/13	▶ Up 5%	✓
FCF	Adjusted² ▶ c.£2.0bn by 2012/13	▶ £2.7bn	✓
	Normalised³ ▶ c.£1.9bn by 2012/13	▶ £2.3bn	
Dividends	▶ Progressive over next 3 years	▶ Up by average of 11% p.a.	✓

¹ before specific items

² before cash specific items and pension deficit payments

³ calculated based on pension tax relief expected at May 2010

Outlook

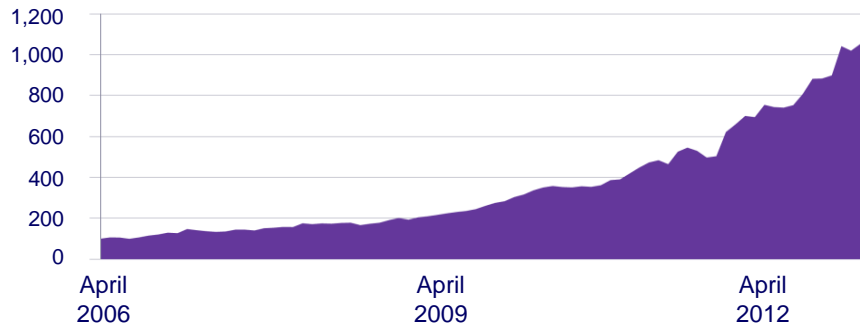
	2013/14	2014/15	2015/16
Underlying revenue ex transit	▶ Improved trend		
EBITDA¹	▶ £6.0bn to £6.1bn	▶ £6.2bn to £6.3bn	▶ Growth
Capex	▶ Broadly level with 2012/13	▶ Broadly level with 2012/13	
Normalised FCF	▶ Around £2.3bn	▶ Around £2.6bn	▶ Growth
Dividends	▶ Up 10-15%	▶ Up 10-15%	

Our markets volume of demand is strong

- ▶ Broadband increasingly critical to everyday life
 - strong volume growth
 - rising service expectations
- ▶ Volume growth plays to strengths of fixed networks
 - complementary roles for fixed and mobile
- ▶ Growth particularly strong in AsiaPac, LatAm & MEA
- ▶ Industry challenges relate to pricing not volume

Data traffic on BT broadband network is growing rapidly

(Index April 2006 = 100¹)



Secure enterprise data connections are also growing

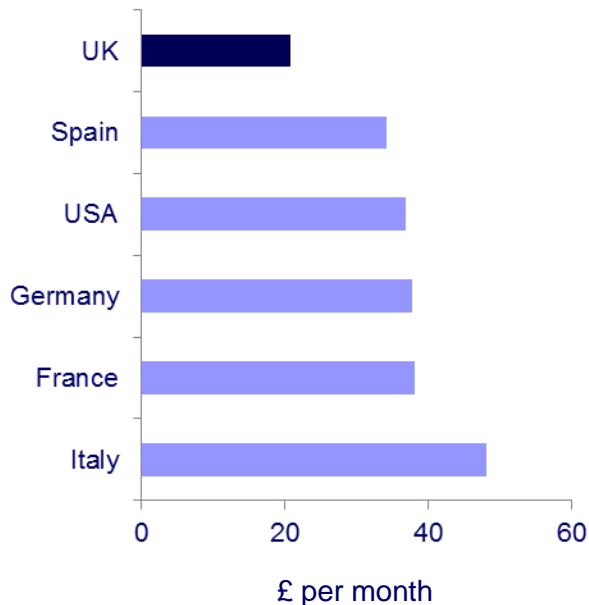
	Expected annual increase in MPLS VPN connections (2013-2018) ²
Asia Pacific	17%
Middle East & Africa	15%
South & Central America	12%
Europe	7%
North America	4%

¹ Peak traffic, Gigabit per second

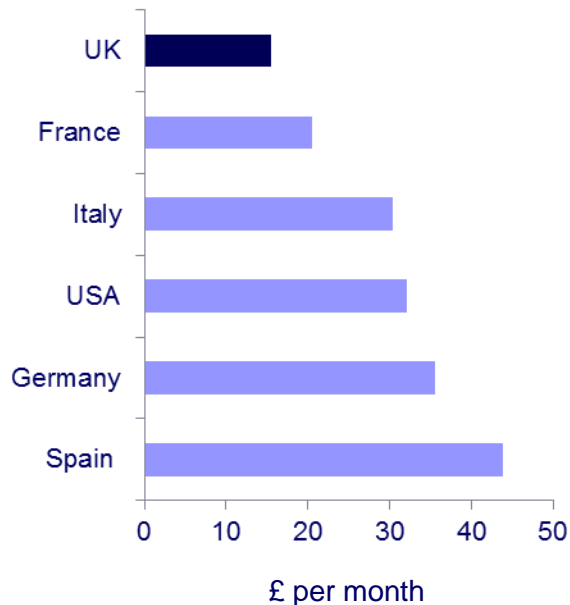
² Ovum IP VPN forecasts – 2013 to 2018

Our markets we have delivered low prices in the UK

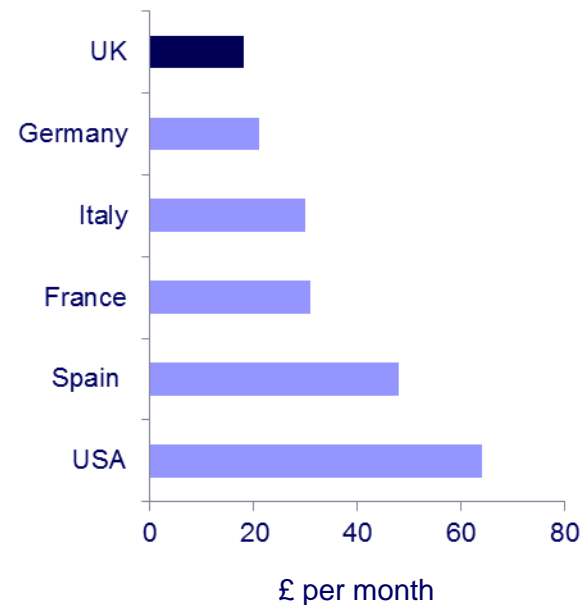
Lowest fixed-line voice prices¹



Lowest broadband prices¹



Lowest superfast prices²

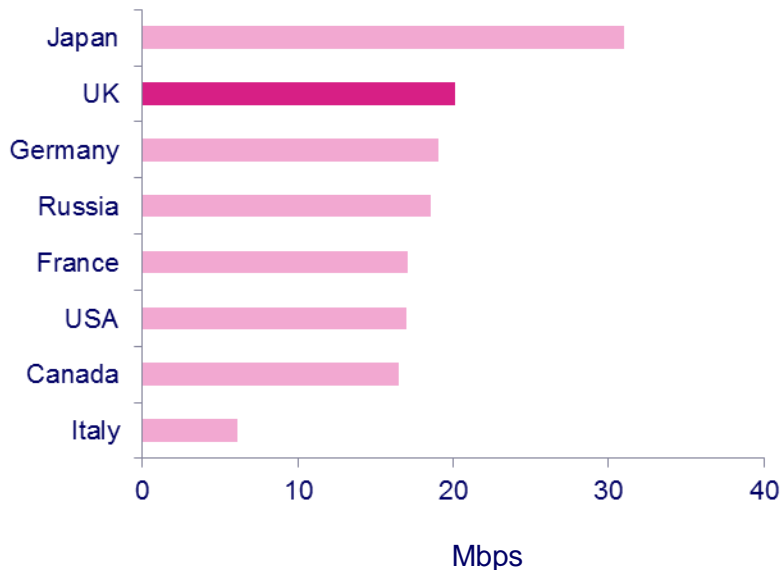


¹ International Communications Market, December 2012, Ofcom. Weighed average of best-value tariff from three largest operators for a family household. PPP adjusted

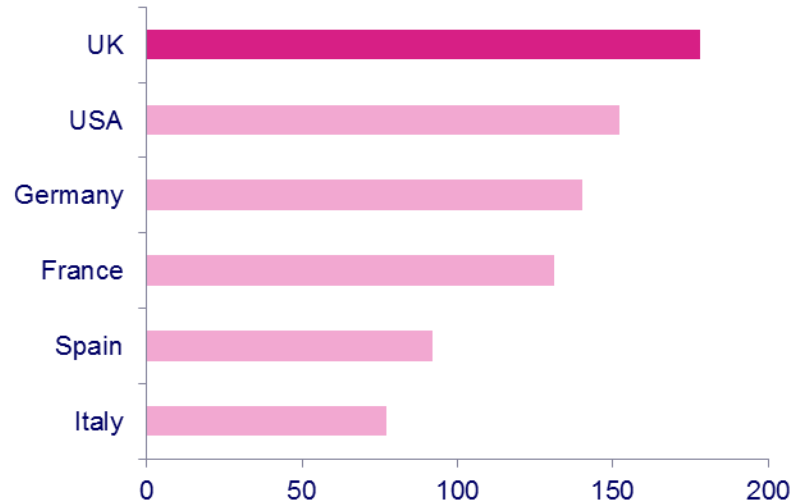
² International Communications Market, December 2012, Ofcom. Weighed average of best-value tariff from three largest operators for an affluent two person household who are heavy internet users with a superfast broadband connection. PPP adjusted

Our markets we have delivered high speeds and internet strength

G8 download speeds¹



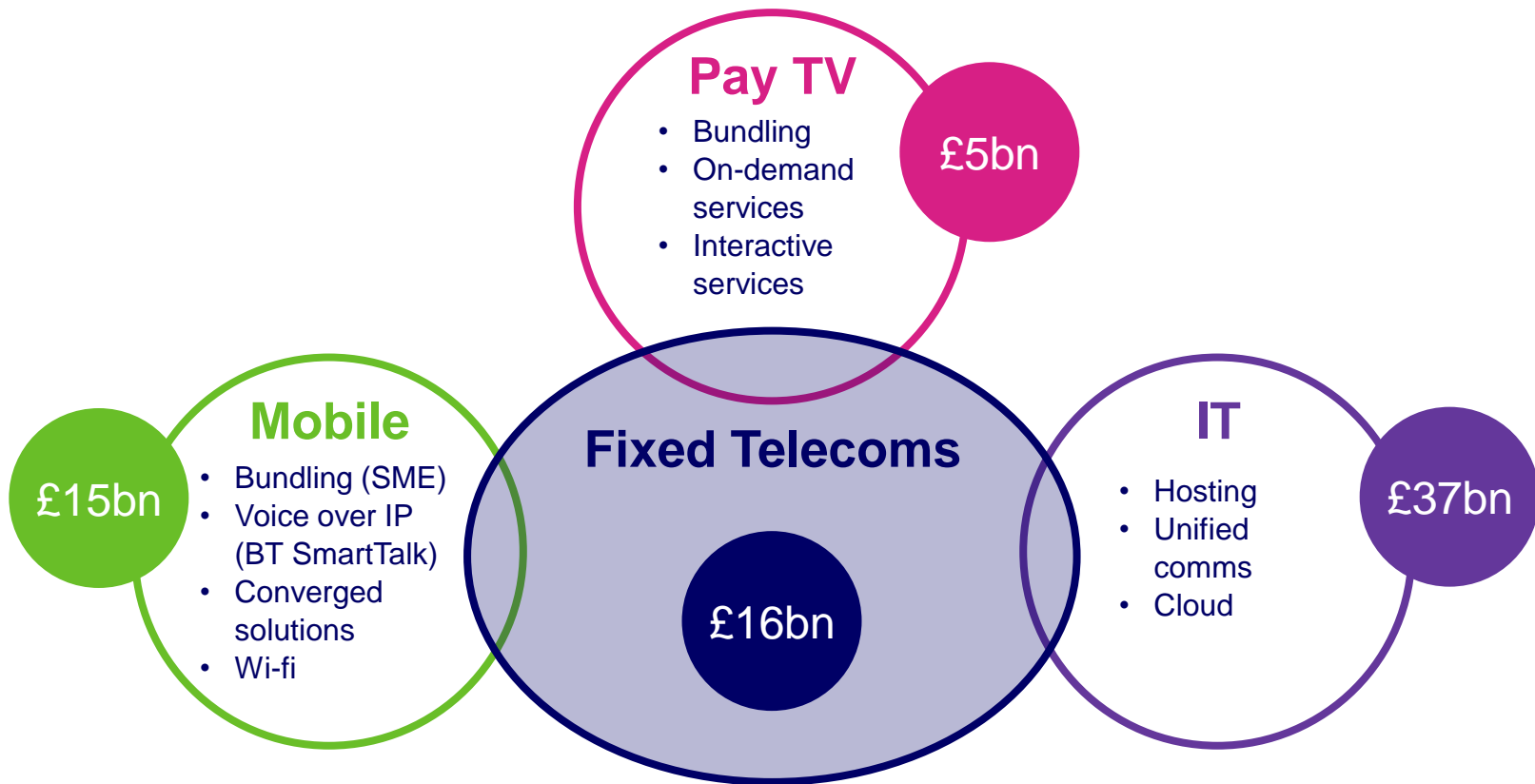
Index of internet strength and activity²



¹ Ookla Net Index, April 2013. The value is the rolling mean throughput in Mbps over the past 30 days where the mean distance between the client and the server is <300 miles

² Boston Consulting Group e-Intensity Index, October 2012. Index is a yardstick of internet strength and activity across nations

Our markets we have opportunities in adjacent markets



Note: annual market revenues in the UK. Fixed revenues exclude wholesale revenues
Sources: UK Ofcom Communication Market Report 2012 & IDC IT Services forecasts

Our strategy

- ▶ 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



Customer service delivery improvement but more to do

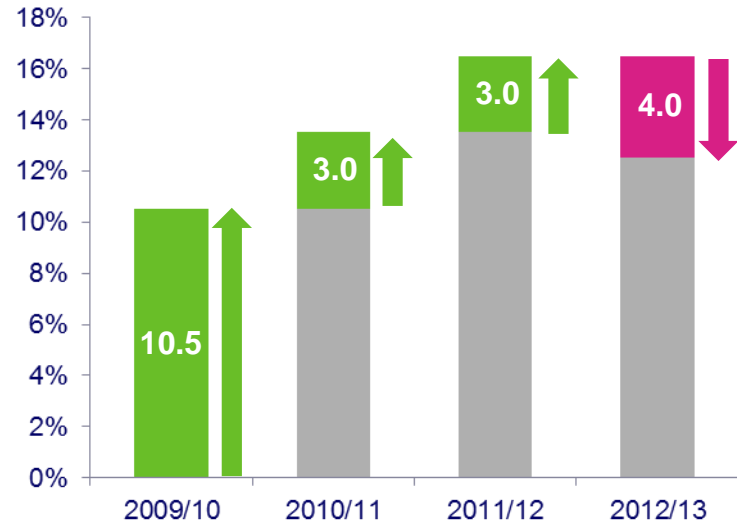
Significant improvement over last 4 years

- ▶ Fewer complaints, higher satisfaction, higher RFT
- ▶ A tough 2012/13 in the UK impacted by some of wettest weather on record
- ▶ Further significant improvement planned

Strong performance in some segments

- ▶ BT Global Services²
- ▶ Plusnet³

Group Right First Time¹



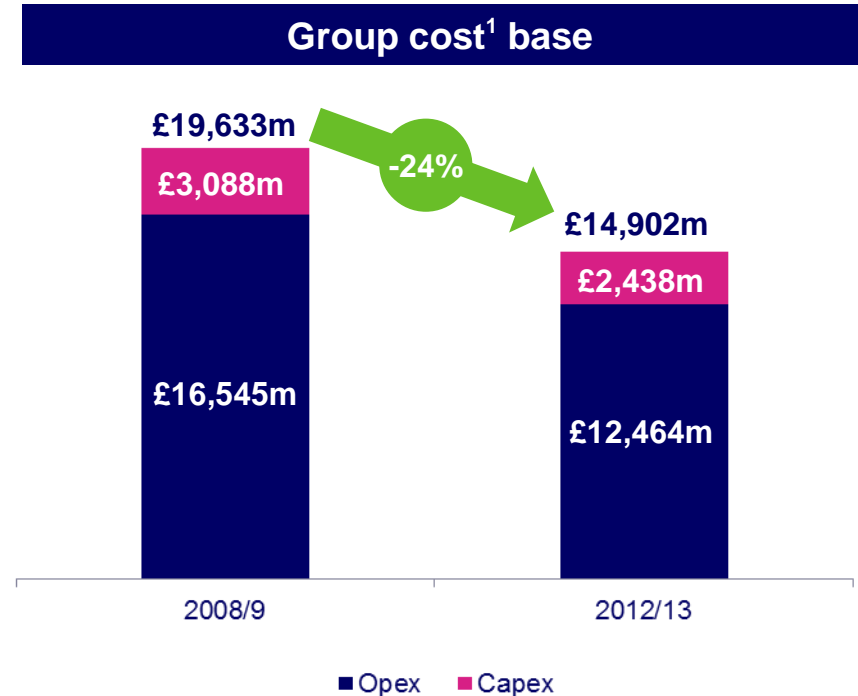
¹ Percentage improvement in Group Right First Time measure each year and cumulatively from 1 April 2010

² Current Analysis – BT Global Services Company Assessment – March 14, 2013

³ Plusnet won 'Best Customer Rated Home Broadband' at the uSwitch.com Broadband Awards 2013; and Best Broadband Provider in BroadbandGenie.co.uk Home Broadband Survey 2013

Cost transformation success and more to go for

- ▶ £4.7bn reduction in opex and capex over last 4 years
 - underpins ability to compete
 - releases resources and cash to support our investments
- ▶ More opportunities ahead



¹ before specific items, depreciation & amortisation and other operating income and purchases of telecommunications licences

Investing for the future Driving broadband based consumer services

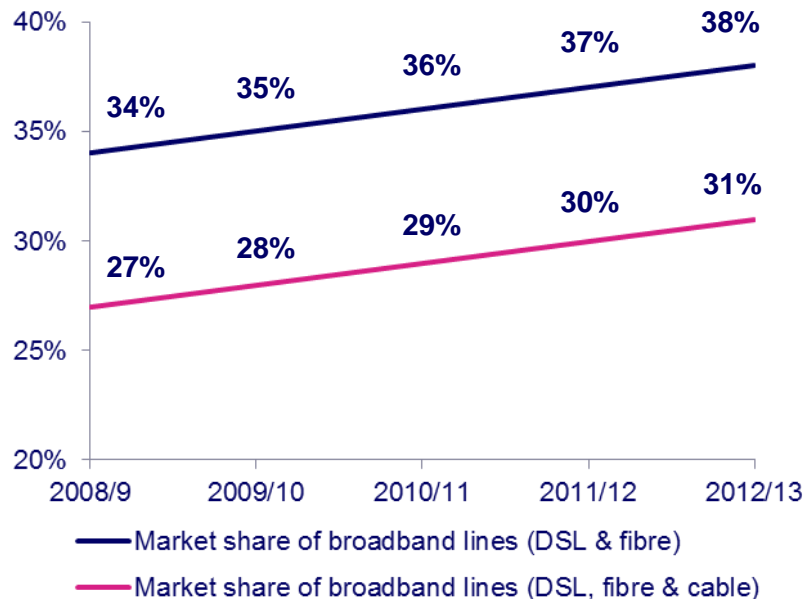
Where we are

- ▶ Growing broadband base & market share
 - now c.1.3m fibre customers
- ▶ Over 800k TV customers
 - growing faster than competition
- ▶ Over 5m BT Wi-fi hotspots

Growth opportunities

- ▶ Fibre broadband
- ▶ TV
 - widening channel portfolio
 - BT Sport
- ▶ Wireless services
 - 4G spectrum opportunity
 - BT SmartTalk - over 150k downloads

BT's retail broadband market share¹



¹ Includes Plusnet and business broadband customers

Investing for the future Being the 'Brand for Business' for UK SMEs

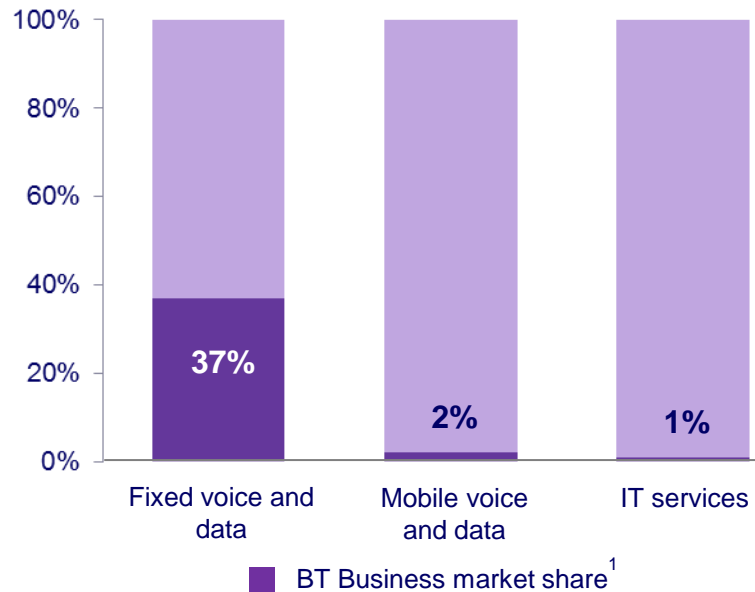
Where we are

- ▶ Strong market position in fixed
- ▶ Stable market share of calls & lines
- ▶ Growing in adjacent markets
 - over 250k mobile customers
 - double-digit² IT services growth

Growth opportunities

- ▶ BT Infinity for Business
- ▶ Mobility
 - converged offers using 4G spectrum
- ▶ IT services
 - growing capabilities
 - sectorial expertise, e.g. professional services

BT Business market share



¹ 2011 BT estimate based on market sizing data from IDC. Excludes NI.

Investing for the future BT Global Services – a global leader

Where we are

- ▶ A global leader
 - recognised by customers and industry
- ▶ Strong customer base

Growth opportunities

- ▶ Investing in high-growth regions
- ▶ Grow share of wallet
- ▶ Building differentiated market position e.g.
 - low latency trading solutions
 - supply chain visibility solutions

Gartner Magic Quadrant for global network service providers¹



¹Gartner, Global Network Service Provider Magic Quadrant, Neil Rickard and Robert Mason, March 2013. 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 our 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.

Investing for the future The wholesaler of choice

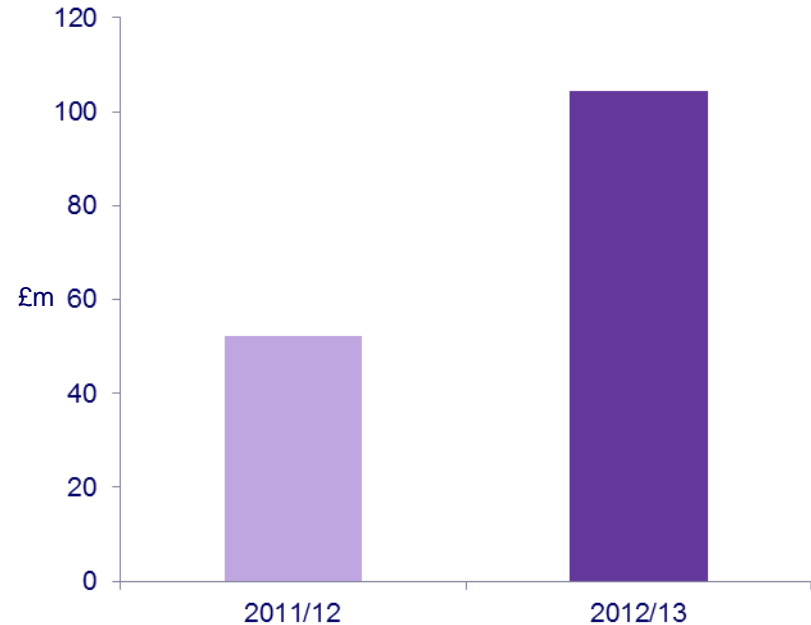
Where we are

- ▶ Strong customer base
 - >1,400 CP customers
- ▶ Changing wholesale market

Growth opportunities

- ▶ Ethernet
 - expanded footprint & portfolio
- ▶ Managed services
 - deeper partnerships with customer base
- ▶ Mobility
 - supporting 4G rollouts
- ▶ IP Exchange
 - rapid growth in UK and overseas

IP Exchange revenue



Investing for the future The best network provider

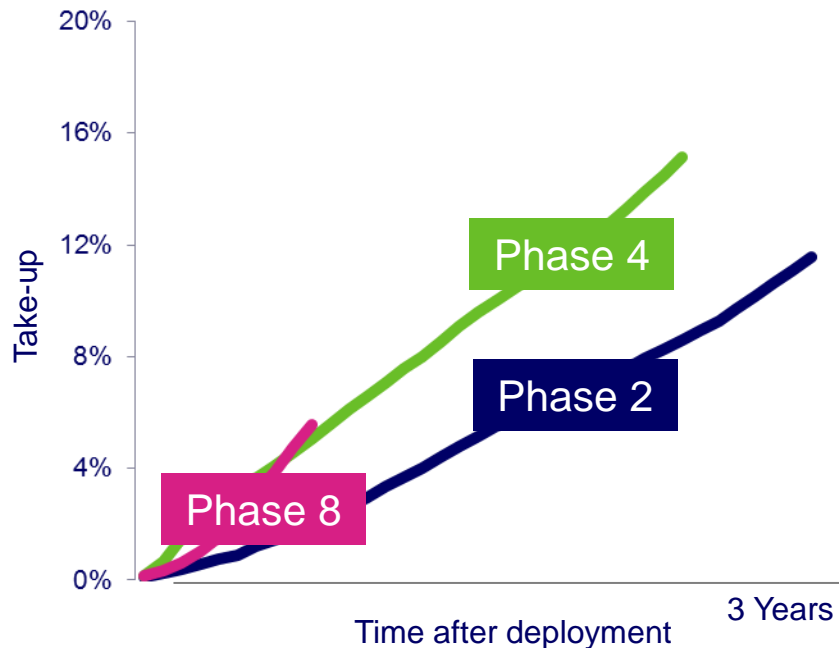
Where we are

- ▶ Fibre deployment
 - one of fastest commercial rollouts in the world
 - two thirds of UK premises during spring 2014, 18 months ahead of original schedule
 - now >15m premises passed

Growth opportunities

- ▶ Aim to reach >90% premises
 - 21 BDUK wins to date supporting rollout in final third
- ▶ Ethernet
 - largest UK footprint
 - growing international footprint
- ▶ 4G

Increasing rate of fibre take-up



Phase 2 – started October 2009
Phase 4 – started June 2010
Phase 8 – started February 2012

Investing for the future 4G spectrum

- ▶ Great indoor coverage at low prices
- ▶ Convergence, convenience and simplicity
- ▶ Faster speeds & higher volumes

For Consumers

- ▶ Super-fast wireless data
- ▶ High quality experience in and out of home
- ▶ Automatic connection to wi-fi and LTE

For Business

- ▶ Complete fixed & mobile solution
- ▶ Predictable fixed costs
- ▶ Single platform for all devices - mobiles, desk phones and soft phones

Machine to Machine

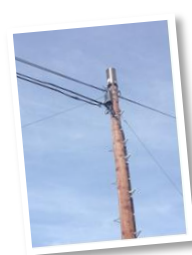
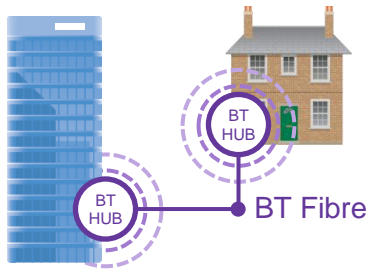
- ▶ Fast, secure and dependable
- ▶ Good for streamed services & prioritising traffic
- ▶ Greater range than wi-fi

4G spectrum inside-out network

High capacity indoor networks
where people use mobile

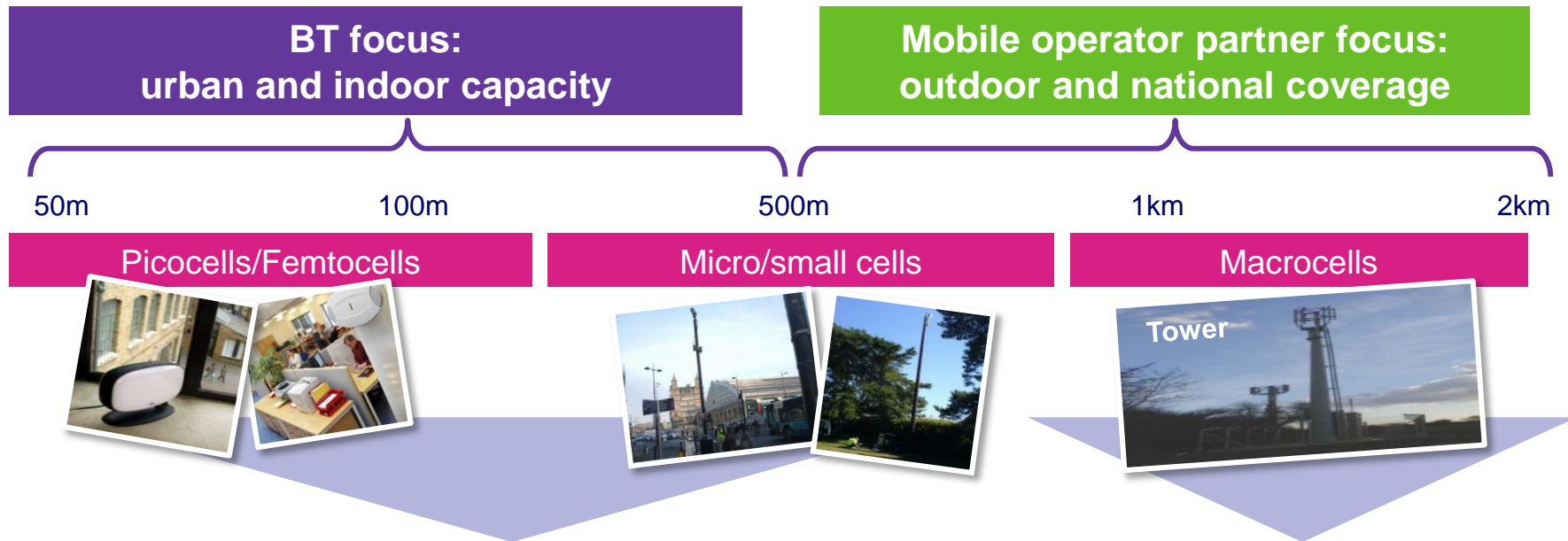
Urban capacity where it's
really needed

Rural coverage to
extend fixed



- ▶ Build focused on indoor and outdoor small cells
 - an economic rollout, growing with the customer base
 - long-term competitiveness – high capacity, lower cost network for heavy data usage
- ▶ Leverages our fibre and wi-fi footprints
- ▶ Extends wi-fi
 - licensed spectrum - greater range, quality of service guarantee for voice and video
 - integrates seamlessly

4G spectrum partnerships & wholesale opportunity



- ▶ No plans to build a macro network
- ▶ Indoor and outdoor small cells where the need exists

- ▶ Roaming seamlessly on partner macro network
- ▶ Open to wholesale to partner MNOs

BT a responsible and sustainable business leader

- ▶ We are working towards clear goals to create a better future for the communities in which we work

Connected Society

Vision: To help improve society through the power of digital connections

2020 goal
9/10

“More than 9 out of 10 people in the UK will have access to fibre-based products & services”

Net Good

Vision: To help society live within the constraints of our planet's resources through our products and people

2020 goal
3:1

“We will help customers reduce carbon emissions by at least three times the end-to-end carbon impact of our business”

Improving Lives

Vision: To help improve hundreds of millions of lives globally through our products and people

2020 goal
£1bn

“We will use our skills and technology to help generate >£1bn for good causes”

Our people



- ▶ Increase skills, e.g.
 - BT Academy
 - multi-skilling
- ▶ Investment leading to new jobs
- ▶ Insourcing
- ▶ Empowerment and continuous improvement, e.g.
 - The Challenge Cup

Summary

- ▶ Continued pricing and economic challenges
- ▶ Improved customer service, but more to do
- ▶ £4.7bn of cost taken out in 4 years, more to go for
- ▶ Investing to support future
- ▶ Growth potential across our business
 - revenue
 - profits
 - cashflow
- ▶ Our strategy is delivering, but more to be delivered

A better business



BT Group plc

Q&A