

BT Group plc

Q4 2008/9 and full year results

14 May 2009



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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: revenue, cost and capital expenditure reduction and free cash flow; sustainable and growing dividend; the anticipated benefits of Global Services' revised operating model and restructuring plan; lower cost base and future cash generation; roll out of fibre networks; pension funding; debt reduction and re-financing needs.

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BT Group plc

Sir Michael Rake



The year in summary

- ▶ Year of significant change for BT
- ▶ Global Services unacceptable performance
 - recovery programme started
- ▶ Good performances in rest of business
- ▶ Pension funding
- ▶ Regulatory backdrop

2008/9 – Year of change

2009/10 – Year for delivery

Full year 2008/9 group results

Revenue	3%	
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EBITDA*	6%	
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Profit before tax*	21%	
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EPS*	19%	
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Free cash flow	£737m	
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* before specific items, leaver costs and contract & financial review charges



Final dividend and dividend policy

- ▶ Final dividend 1.1p
- ▶ Total dividend 6.5p
- ▶ Rebased to sustainable level
- ▶ Committed to delivering attractive returns for shareholders
- ▶ Operational improvements will allow dividend to grow at same time as:
 - investing in the future
 - gradually paying down debt
 - supporting pension scheme



BT Group plc

Ian Livingston



Building a better business

















Q4 2008/9 key points

1. Line of business results
2. Global Services
3. Customer service
4. Fibre networks
5. Total labour resource
6. Pension fund

1. Line of business results

Q4 2008/9 line of business summary

	Retail	Wholesale	Openreach	Group ex GS	Global Services
Revenue	 3%	 2%	 2%	 3%	 6%
EBITDA*	 11%	 3%	 3%	 4%	 86%
EBITDA* margin movement	 2.6	 0.1	 2.0	 2.6	

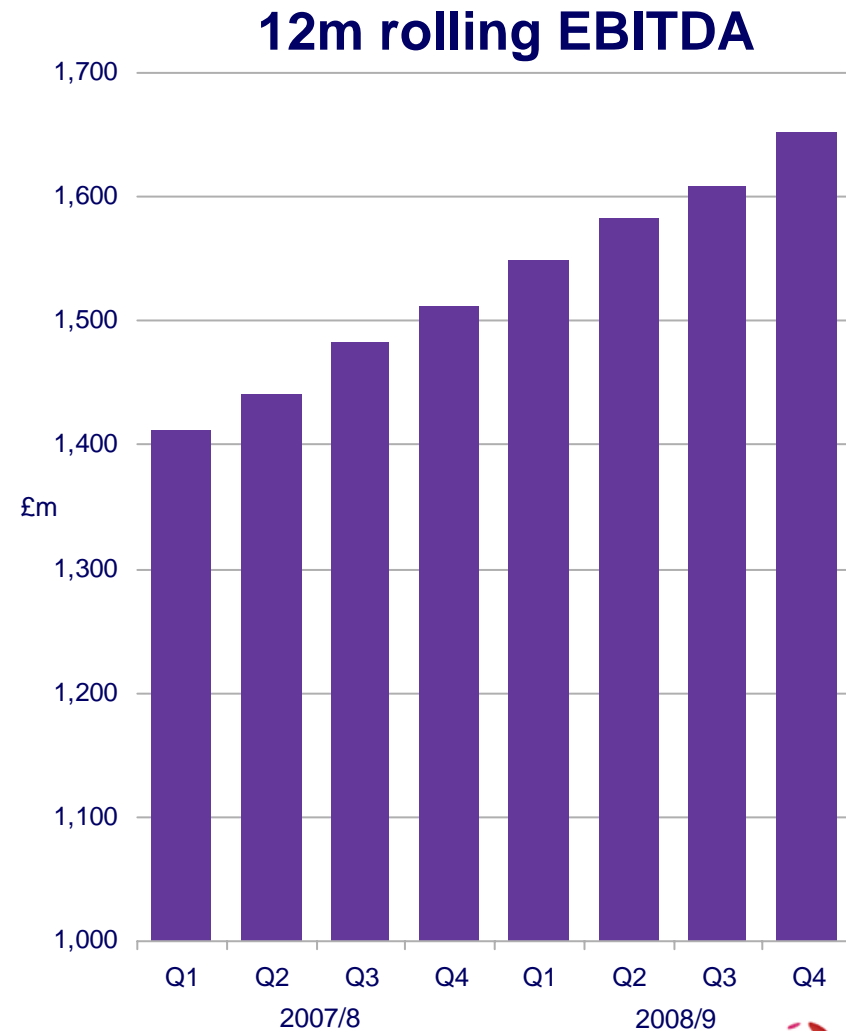
percentage points

* before specific items, leaver costs and contract & financial review charges

Q4 2008/9 line of business overview

Retail

- ▶ Revenue down 3%
 - underlying revenue down 5%
- ▶ SG&A reduced by 12%
 - underlying SG&A reduced by 14%
- ▶ EBITDA up 11%
 - increases in all business units
- ▶ Operating profit up 19%



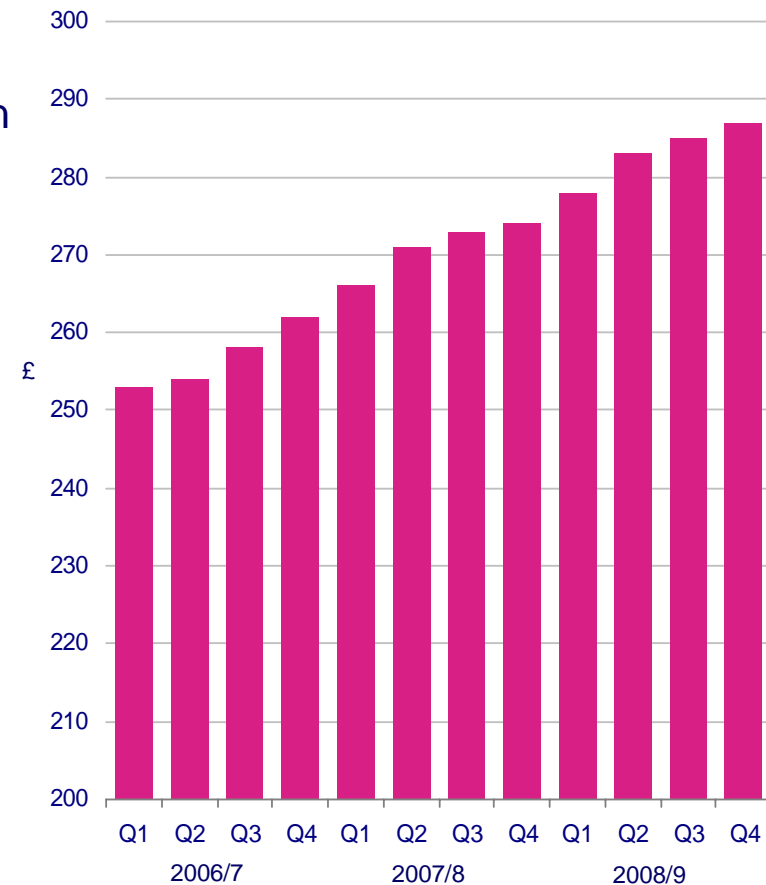
Q4 2008/9 line of business overview

Retail

► Consumer

- Calls and lines
 - line loss due to economy and competition
 - take up of higher value call packages
 - helping the customer – BT Basic, 0870, 0845 and 0800
- Broadband
 - 42% share of net adds*
 - maintaining 34% of installed base*
- Vision
 - currently > 430,000 customers
 - 90% of new customers taking subscription package
 - Vision ARPU doubled
- ARPU** £287 up £2

Consumer ARPU**



*DSL & LLU

** ARPU = average annual revenue per consumer household



Q4 2008/9 line of business overview

Retail

▶ Business

- line loss due to SME economic problems
- Business One Plan, over 1m lines
- transfer of smaller BTGS customers

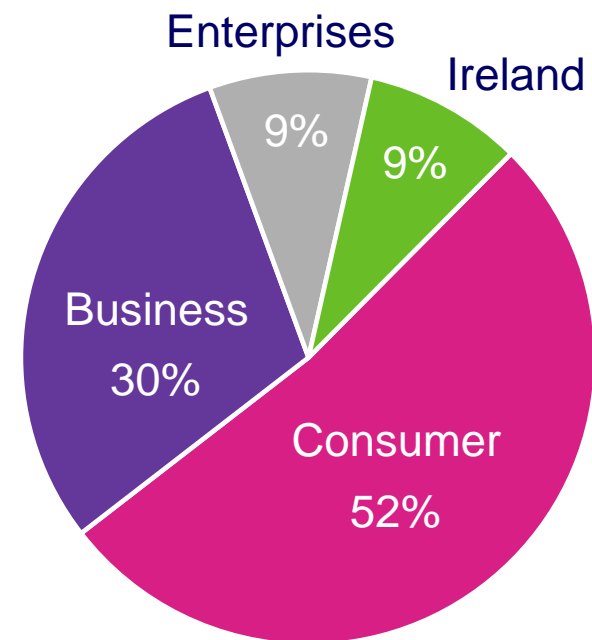
▶ Enterprises

- BT Conferencing revenue doubled
 - world's no.1 in video conferencing
- BT Directories affected by downturn in advertising market
 - no.2 position with strong online growth

▶ Ireland

- difficult conditions in RoI but significant cost savings offset underlying revenue decline

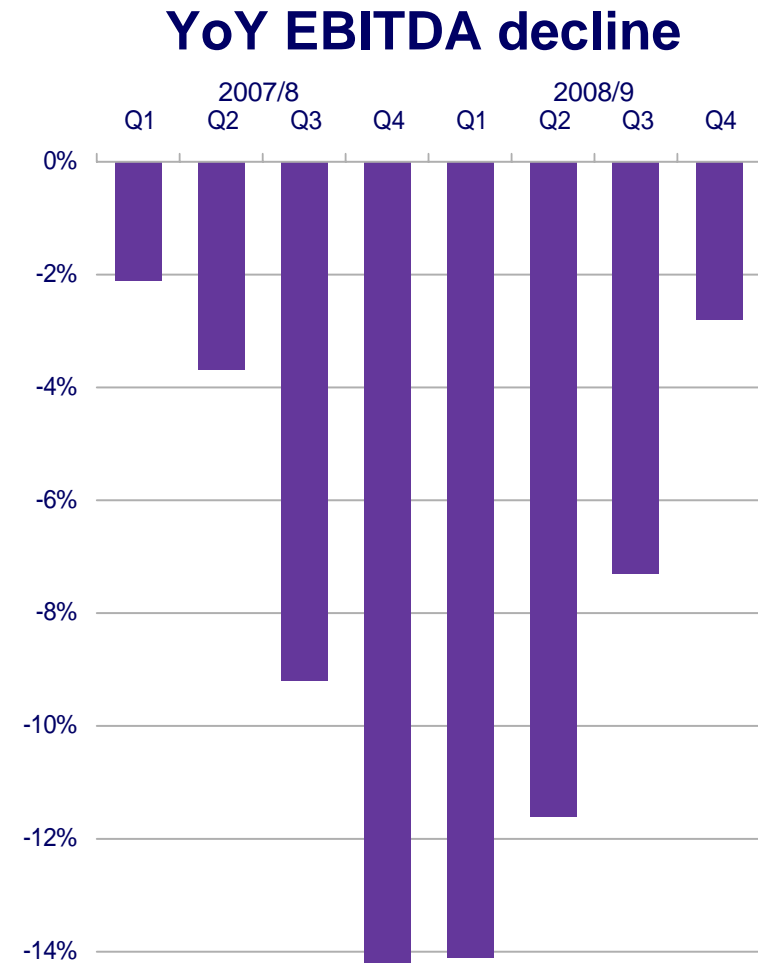
External revenue by unit



Q4 2008/9 line of business overview

Wholesale

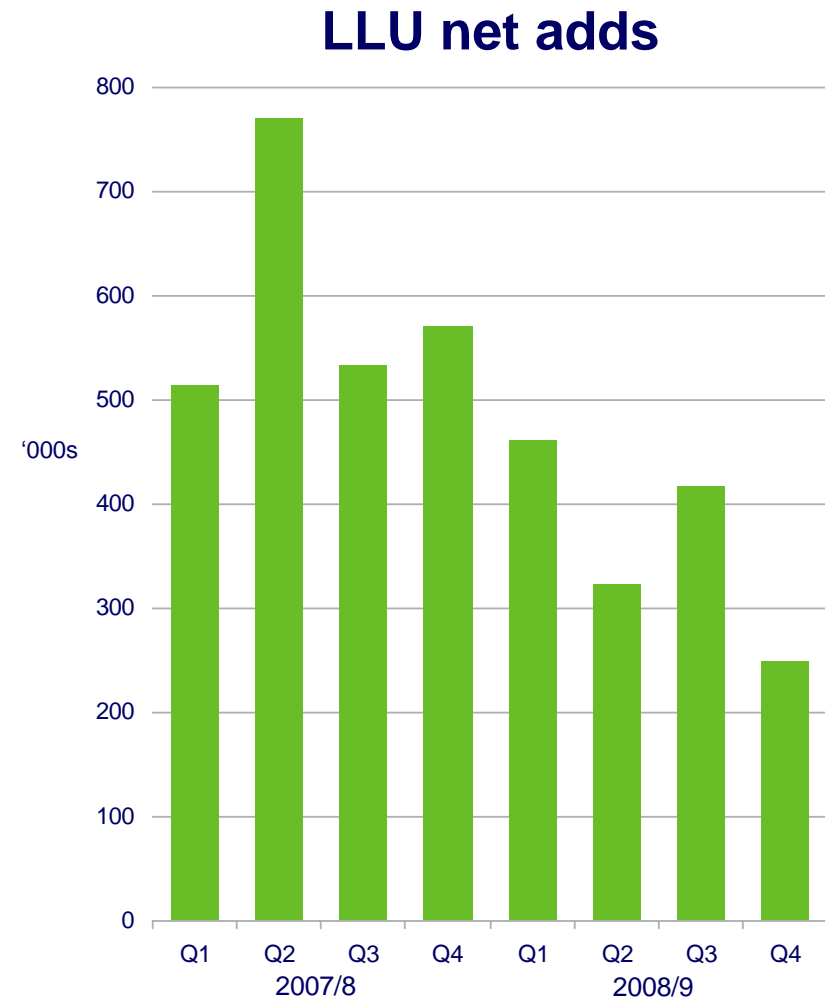
- ▶ Revenue down 2%
 - flattening of trend
 - 18% reduction in broadband revenue due to LLU migration
 - 96% increase in managed network solutions revenue
- ▶ SG&A reduced by 7%
- ▶ EBITDA down 3%
 - reduction in rate of decline
- ▶ Impact from low margin transit and MTR in 2009/10



Q4 2008/9 line of business overview

Openreach

- ▶ Revenue down 2%
 - external revenue flat due to lower LLU connections
 - internal revenue down 3%
- ▶ Operating costs down 5%
 - improvement from 'right first time' initiatives
- ▶ EBITDA up 3%
 - positive impact from business rates
 - negative impact from 2 months of Ethernet price reductions



2. Global Services

Q4 2008/9 line of business overview

Global Services

- ▶ Revenue up 6%
 - underlying revenue down 6%
 - strong quarter last year
- ▶ Cost savings accelerating
 - c.3,300 net TLR* reduction in 2008/9, c.2,500 in Q4
- ▶ EBITDA** £43m down 86%
 - FX effect £(19)m
- ▶ Strong customer proposition and delivery
- ▶ Highest ever CSI rating from Telemark Services

Customer Satisfaction Index (CSI) Telemark Services

Top 3

1st BT ✓

2nd Orange Business Services

3rd NTT Com

Bottom 3

6th T-Systems

7th Telefonica

8th Cable & Wireless



* Total labour resource

** before specific items, leaver costs and contract & financial review charges

Global Services - rolling 12 month order intake £8.0bn



£2.6bn order intake in Q4

Global Services contract and financial review charges

- ▶ Q4 contract and financial review charges £1.3bn
 - £1.2bn in relation to two major contracts
 - includes certain smaller contracts
- ▶ Charge mainly represents write-down of costs already incurred and intangible assets
- ▶ No immediate impact on cash
- ▶ Reflects more conservative assumptions in relation to costs to complete

Global Services operational review charge

- ▶ Specific item restructuring charges of £280m

£m	Q4 2008/9	Next 2 years
Networks and products rationalisation	183	c.70
People and property	51	c.350
Intangible and other asset impairment	46	-
Total	280	c.420

- ▶ c.£420m over next two financial years
- ▶ Net cash impact of c.£300m over next two financial years
 - c.£260m in 2009/10

Global Services aims

- ▶ Deliver sustainable positive cashflow
- ▶ Continue to deliver excellent and improving customer service
- ▶ Focusing our efforts on key customers in key markets
- ▶ Driving operational improvements
- ▶ Significantly lower cost base

Global Services

2008/9

Fix and focus

- ▶ Senior leadership changes
- ▶ Contract & financial reviews
- ▶ Operational review completed
- ▶ Cost reduction programme implemented
- ▶ More rigorous approach to new contracts

2009/10

Delivery

- ▶ Business restructuring - focus on key customers, products and processes
- ▶ Infrastructure streamlining and partnering
- ▶ Organisational de-layering and new operating model
- ▶ Delivery of cost reduction programmes

Global Services new focus

BT Global Services

UK Domestic

- ▶ No.1 provider of networked IT services to corporates and the public sector

MNC Business

- ▶ Leading provider of networked IT services to multinational customers

GS Enterprises

- ▶ Portfolio of non-UK businesses specialising in domestic telecoms and professional services to corporates and the public sector within their domestic markets

Focus on core strengths and better execution

Global Services new structure

UK Domestic

- ▶ Revenue of c.£2.5bn with c.1,100 customers
- ▶ c.£0.4bn EBITDA contribution
- ▶ Leverage our position in managed network solutions and traditional business for UK corporates
- ▶ Local and national UK government provision of wider BPO and systems/network integration services

Global Services new structure

Multinational Corporations Business

- ▶ Revenue of c.£3.5bn with c.400 customers
- ▶ c.£0.2bn EBITDA contribution
- ▶ Focus by sector to leverage replicable solutions
- ▶ Networked IT services on global MPLS network
- ▶ Focus direct sales resource in the countries where customers are headquartered
- ▶ Global delivery and service organisation

Global Services new structure

Global Services Enterprises

- ▶ Revenue of c.£2.8bn
- ▶ c.£0.2bn EBITDA contribution
- ▶ Domestic telcos and professional service businesses serving corporate and public sector in key target markets
- ▶ Build on relationships with existing domestic customers
- ▶ Streamline organisation, leverage existing assets and optimise productivity

Global Services contract process

- ▶ New bid response centres and processes
- ▶ Account start-up unit
- ▶ More standardisation
- ▶ More stringent financial targets
- ▶ Risk reduction
- ▶ Faster and more efficient response and delivery for customers
- ▶ Ongoing review and control process

Better returns and improved customer service

3. Customer service

Customer service

▶ Consumer

- abandoned calls down by 3/4
- complaints fallen by 1/3

▶ SME

- billing queries halved

▶ Corporates

- average time to provide international MPLS reduced by 43%

▶ Networks

- access line faults reduced by 1/3 over last 2 years
- average time to repair a fault halved over last 3 years



**Drives improved customer experience
and significant cost savings**

4. Fibre networks

Fibre networks

- ▶ Available to up to 10m households by 2012
- ▶ FTTC
 - up to 40Mb downstream, up to 15Mb upstream
- ▶ Accelerating roll-out
 - looking to more than double availability of super-fast broadband by the end of the financial year
 - original target was up to 500,000 customers
 - within current £2.7bn capex target
- ▶ FTTP
 - live in Ebbsfleet – users experiencing speeds to up to 95Mb
 - 130,000 business customers using fibre with speeds of up to 10Gb

5. Total labour resource

Total labour resource

	At end 2007/8	Reductions	At end 2008/9
Direct labour	c.110k	c.5k	c.105k
Indirect labour	c.52k	c.10k	c.42k
TLR	c.162k	c.15k	c.147k

▶ Resourcing

- redeployment
- retraining

▶ TLR reductions

- c.5k permanent jobs out of c.15k total in 2008/9
- similar total in 2009/10

▶ Flexibility and attendance patterns

▶ 2009/10 zero pay award

6. Pension fund

Pension fund triennial valuation

► Funding

- Trustee and company have agreed gross deficit contributions of £525m pa (c.£380m net), in cash or specie, in each of next 3 financial years
- Agreement approved by Pensions Regulator

► Valuation

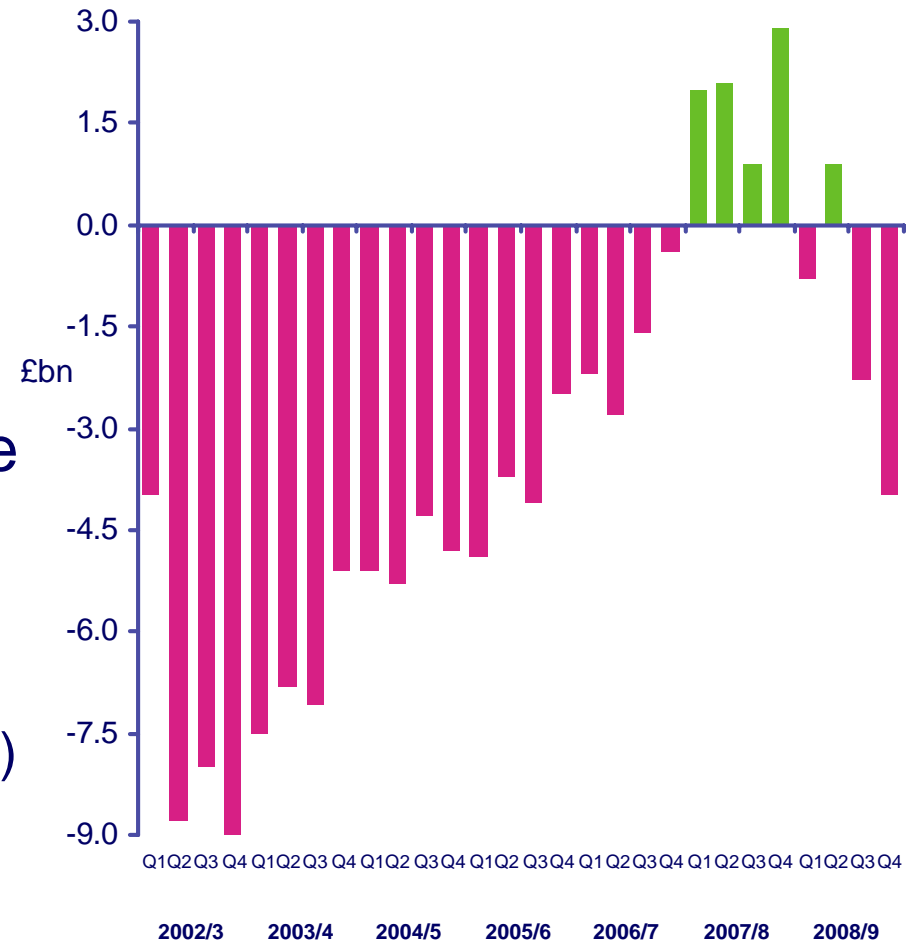
- Trustee and company at advanced stage in completion of funding valuation
- Pensions Regulator wishes to discuss underlying assumptions and basis of valuation
- Pensions Regulator has requested that valuation and assumptions are not finalised or disclosed before discussions are complete

Pension fund IAS19 valuation

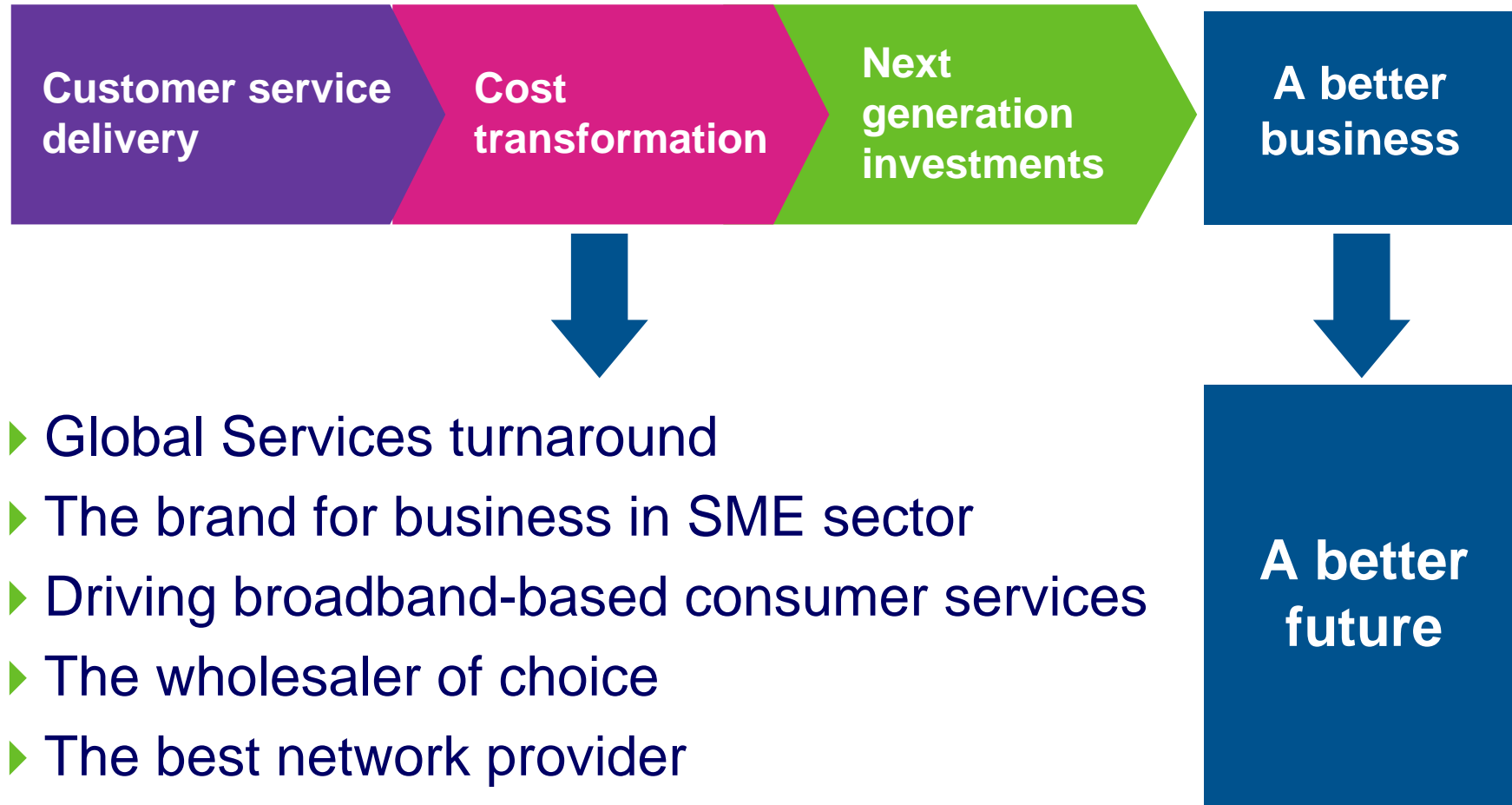
- ▶ £4.0bn pre tax deficit, £2.9bn post tax deficit
 - AA bond rates at 6.85% (Q3: 6.45%)
 - inflation at 2.90% (Q3: 2.70%)

- ▶ Pension effect on net finance costs
 - pension interest charge of c.£275m for 2009/10 vs credit of £313m in 2008/9 (non-cash)

IAS19 pre tax valuation



Building a better future



Emerging stronger from recession



BT Group plc

Tony Chanmugam



Profit and loss account

£m	Q4 2008/9	Q4 2007/8	Change	FY 2008/9
Revenue	5,473	5,422	1%	21,390
POLOs	1,092	1,098		4,266
Revenue (net)	4,381	4,324	1%	17,124
EBITDA*	1,354	1,569	(14%)	5,552
Depreciation & amortisation	(791)	(755)		(2,890)
Operating profit*	563	814	(31%)	2,662

* before specific items, leaver costs and contract & financial review charges



Profit and loss account

£m	Q4 2008/9	Q4 2007/8	Change	FY 2008/9
Operating profit*	563	814	(31%)	2,662
Leaver costs	(62)	(56)		(204)
Finance costs (net)	(151)	(97)		(620)
JV & assoc.	17	(3)		39
Profit before tax**	367	658	(44%)	1,877
Specific items	(343)	(164)		(372)
Contract & financial review charges	(1,303)	-		(1,639)
Reported profit before tax	(1,279)	494		(134)
Tax	303	(68)		53
Profit for the period	(976)	426		(81)
Reported EPS	(12.6)p	5.4p		(1.1)p

* before specific items, leaver costs and contract & financial review charges

** before specific items and contract & financial review charges



Free cash flow

£m	Q4 2008/9	Q4 2007/8	Change	FY 2008/9
EBITDA*	1,354	1,569	(215)	5,552
Leavers	(62)	(56)	(6)	(204)
EBITDA	1,292	1,513	(221)	5,348
Interest	(202)	(144)	(58)	(937)
Tax	(115)	(15)	(100)	(228)
Capex	(701)	(759)	58	(3,038)
Working capital	847	1,195	(348)	(462)
Other	19	9	10	89
Specific items	(6)	(94)	88	(35)
Free cash flow	1,134	1,705	(571)	737
Net debt	10,361	9,460	901	10,361

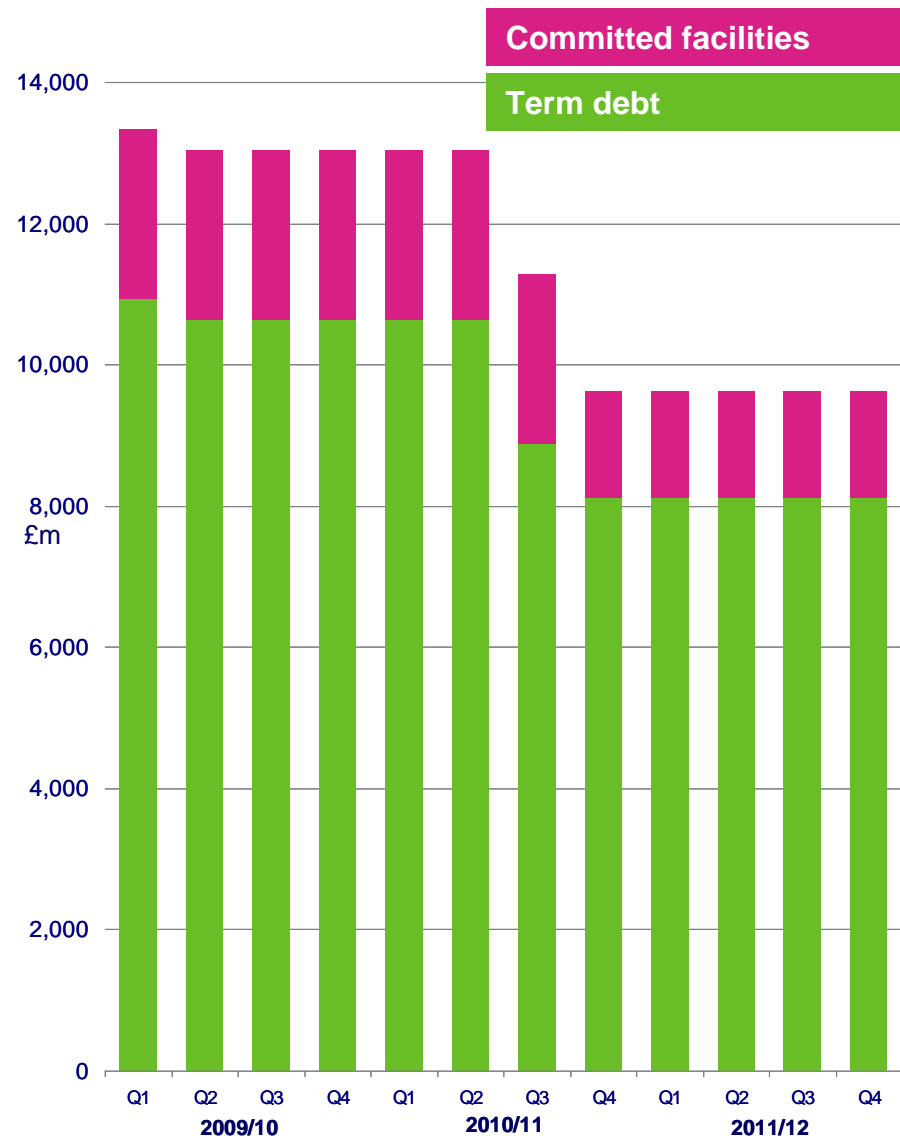
* before specific items, leaver costs and contract & financial review charges



Debt and liquidity

- ▶ Net debt of £10.4bn
- ▶ £0.9bn of committed facilities extended with term out to Q4 2010/11
- ▶ Sufficient financing in place to Q4 2010/11
- ▶ Credit rating reduced
 - Moody's from Baa1 to Baa2
 - S&P from BBB+ to BBB
- ▶ Gradually reduce net debt over time

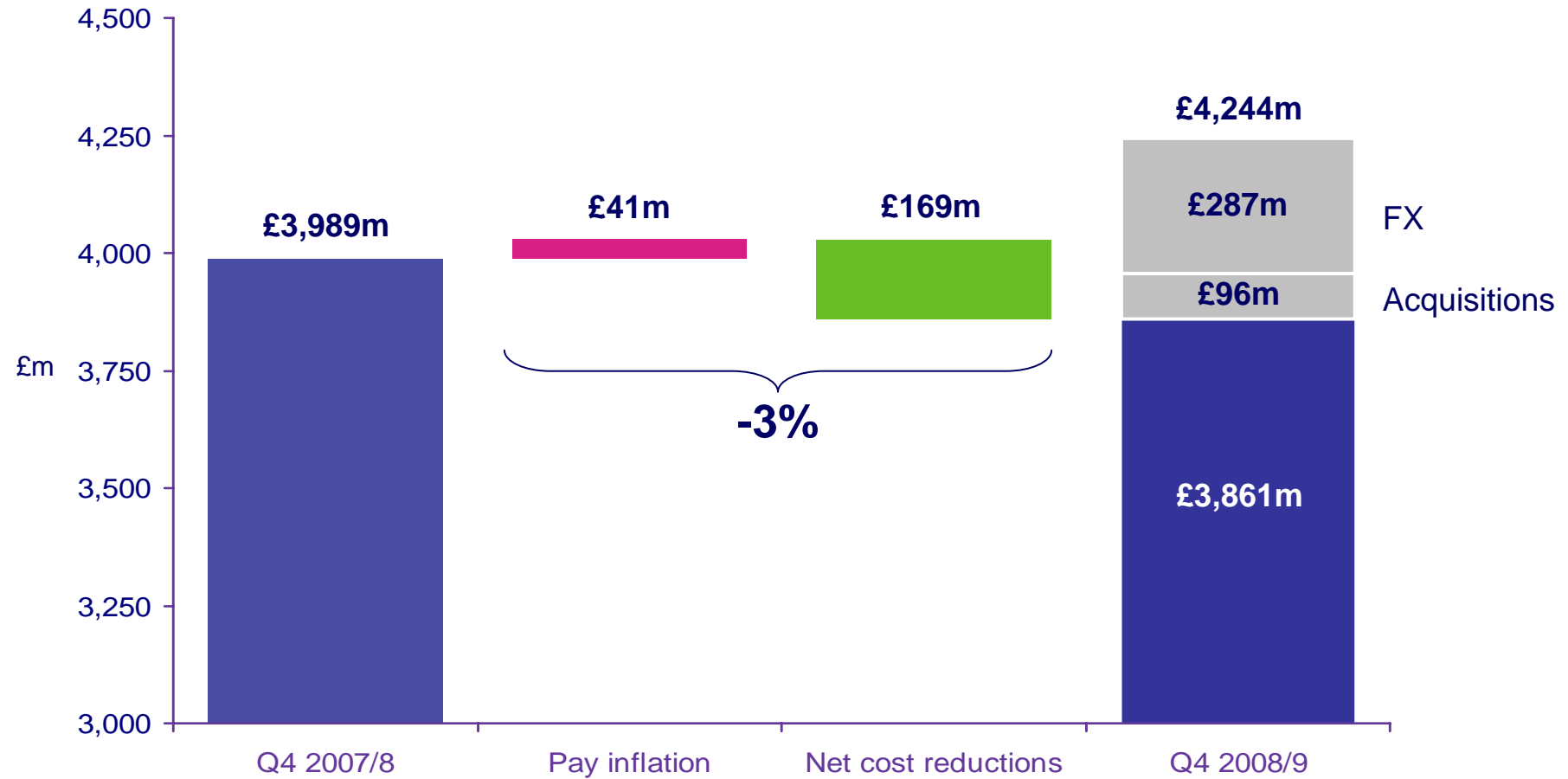
Total term debt and committed facilities*



* assuming no renewal or new facilities



Q4 2008/9 movement in group cost base*

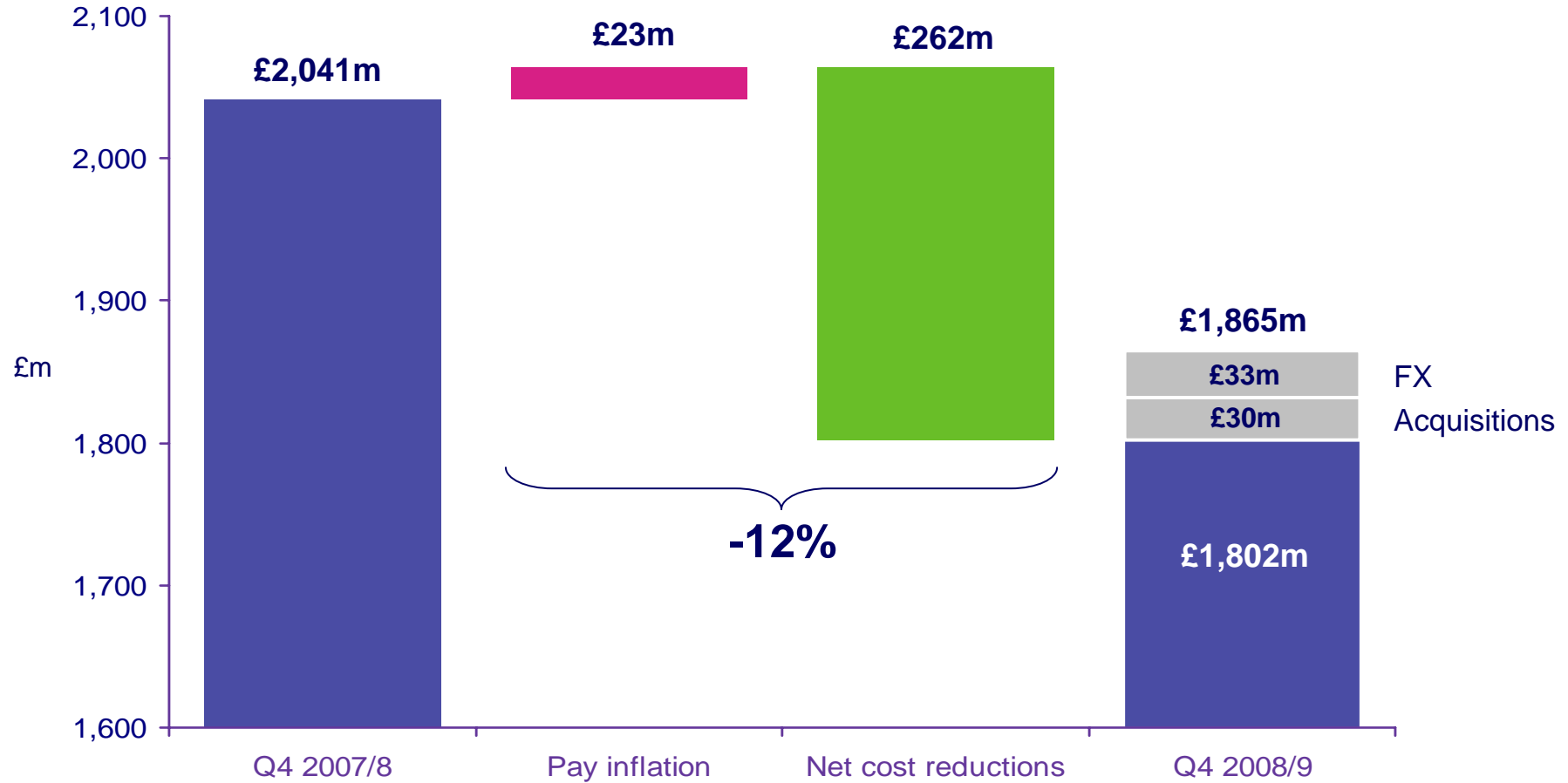


c.3% underlying reduction in cost base

* before specific items, leaver costs, depreciation & amortisation, excluding other operating income and contract & financial review charges



Q4 2008/9 movement in cost base* ex. BTGS

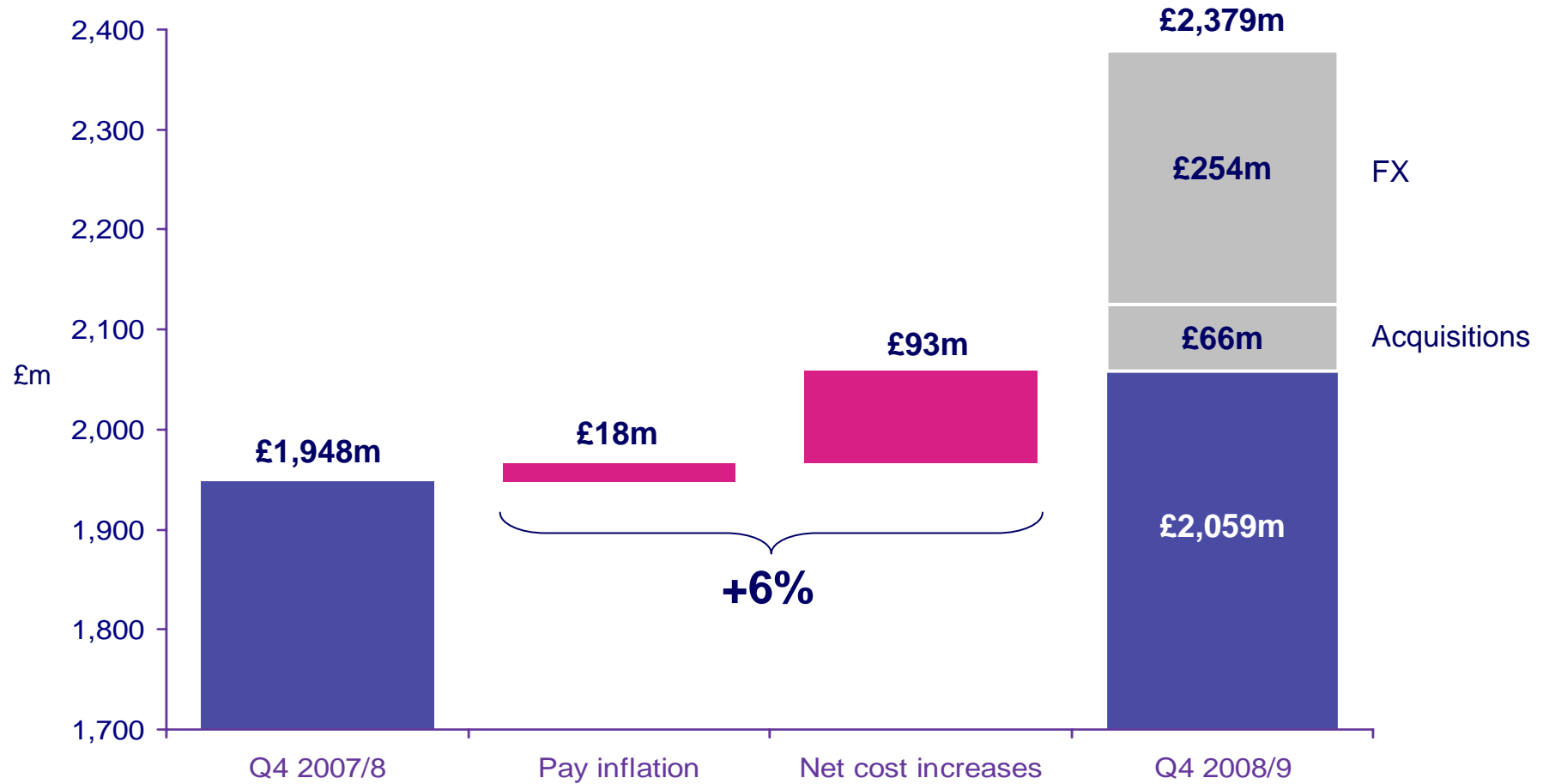


c.12% underlying reduction in cost base

* before specific items, leaver costs, depreciation & amortisation, excluding other operating income and contract & financial review charges



Q4 2008/9 movement in BTGS cost base*



c.6% underlying increase in cost base

* before specific items, leaver costs, depreciation & amortisation, excluding other operating income and contract & financial review charges



Global Services cost savings in 2008/9

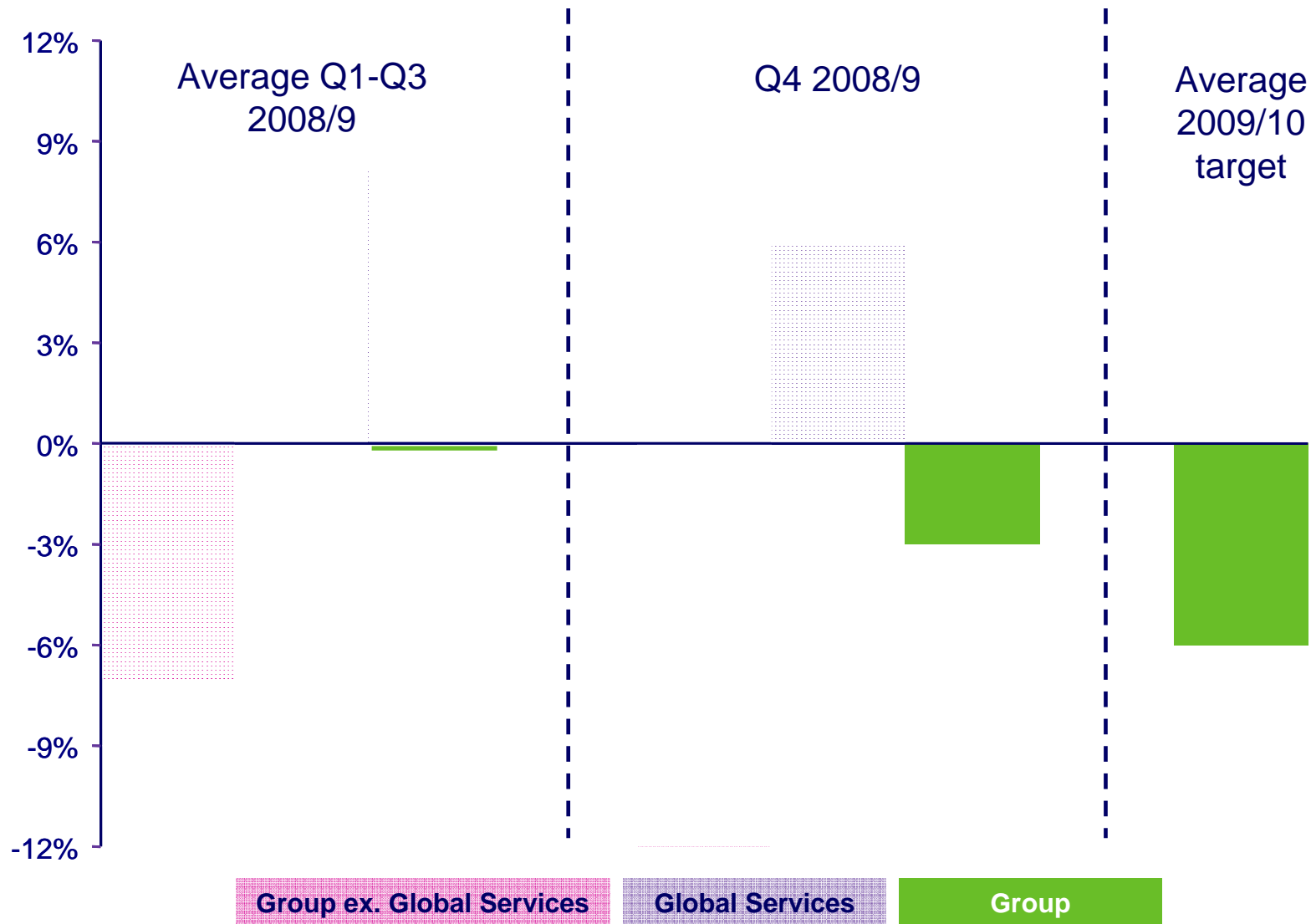
- ▶ TLR* reductions
 - c.3,300 net reduction in 2008/9, c.2,500 in Q4
- ▶ Contractor rates reduced by up to 35%
- ▶ Supplier spend renegotiations
 - average price reductions of 12%
- ▶ Focus on discretionary spend
 - 30% reduction achieved between Q3 and Q4
- ▶ Expect Global Services cost reductions to be approximately 1/3 of total group savings

Effects will be seen in 2009/10

* Total labour resource



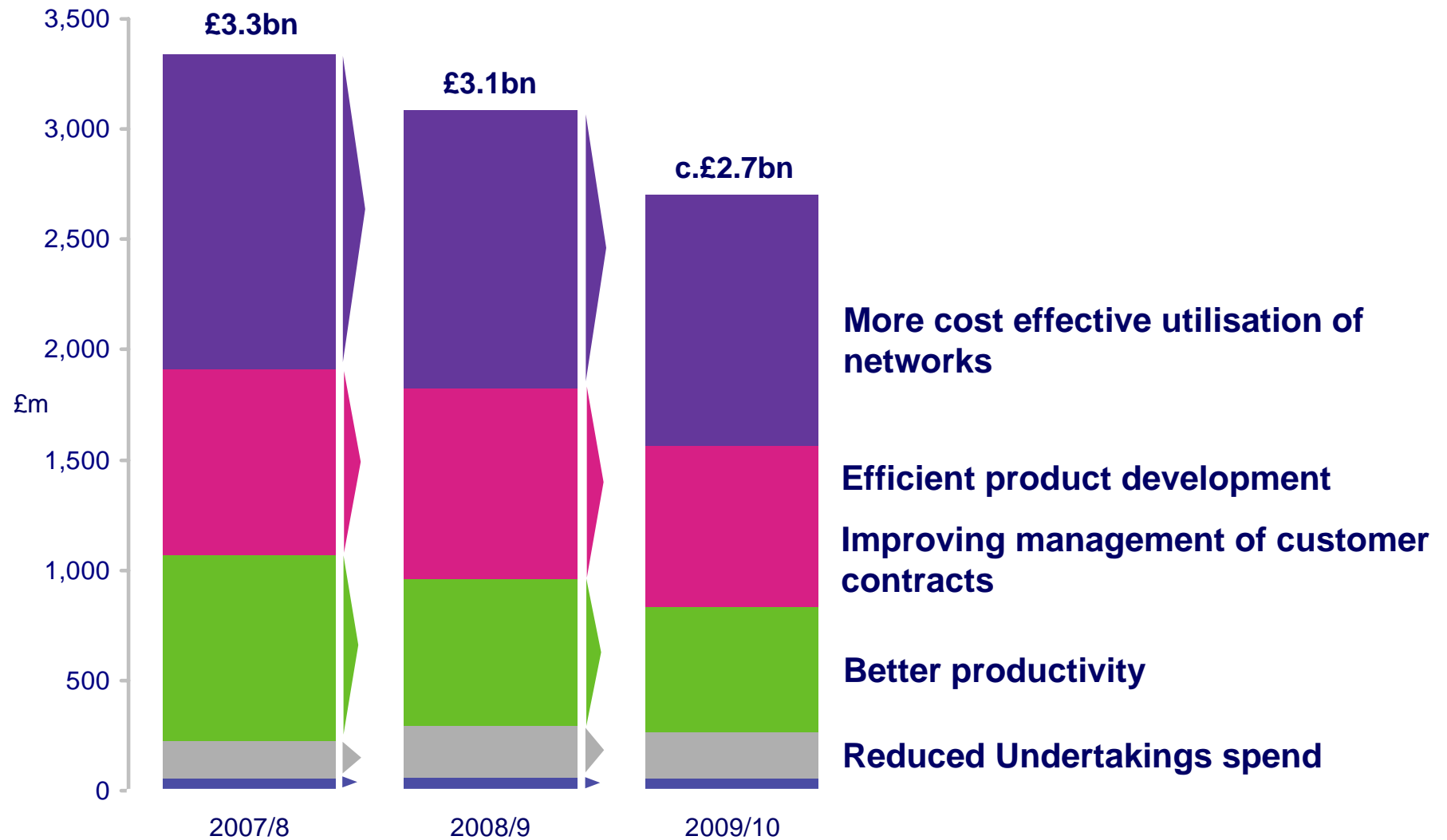
Group cost* movements 2008/9 & 2009/10



* before specific items, leaver costs, depreciation & amortisation, excluding other operating income and contract & financial review charges



Capex driving strategic investment



Platform/Network

Line of business

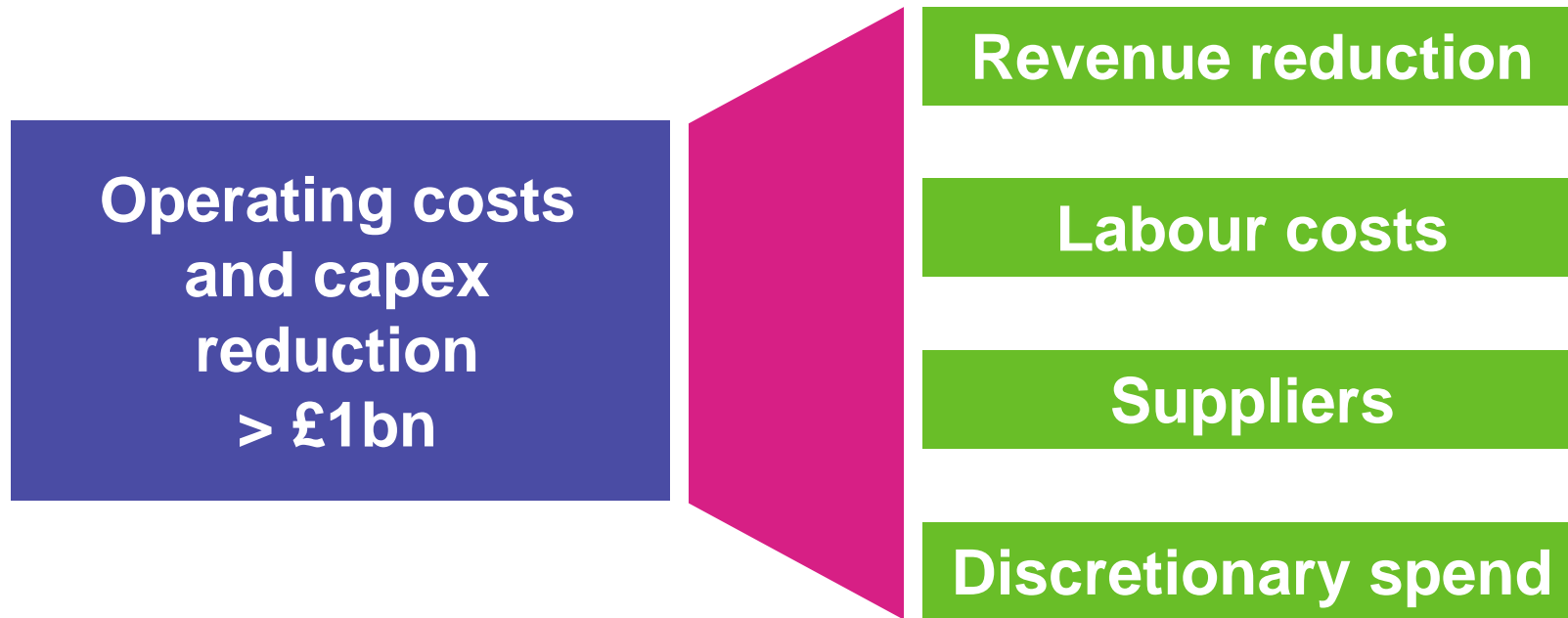
Access

Regulatory & compliance

Support functions



Total cost reduction 2009/10 target



2009/10 group outlook

▶ Revenue

- 4-5% decline due to continuing transit trends, MTR, refocusing of BTGS and economic conditions

▶ Cost savings

- absolute net reduction in costs of >£1bn of which approximately 1/3 related to capex which is expected to reduce to around £2.7bn

▶ Free cash flow

- expected to be > £1bn (pre pension top-ups but post specific cash costs) in 2009/10 and beyond

Emerging stronger from recession

2008/9

Year of change

2009/10

Year for delivery

Emerging stronger from recession





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Q&A



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