

A better business


A better future

BT Group plc

Q4/full year 2011 results

12 May 2011

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A better business



BT Group plc

Sir Michael Rake, Chairman

Summary of the year

- ▶ Progress towards making BT a better business
- ▶ Improving profitability and free cash flow
- ▶ Investing in the business for a better future
- ▶ A responsible and sustainable business leader



Full year 2011 group results

Revenue¹	£20,076m	4%	
- underlying ex transit		3%	
EBITDA¹	£5,886m	4%	
Profit before tax¹	£2,083m	20%	
EPS¹	21.0p	21%	
Free cash flow²			
- before specific items	£2,223m	6%	
- after specific items	£2,011m	4%	
Net debt	£8,816m	down £467m	

¹ before specific items

² before pension deficit payments

2011 Results vs. outlook

	Outlook at May 2010	Outlook at February 2011	2011 Results	
Revenue¹	c.£20bn	c.£20bn	£20,076m	✓
Operating cost savings²	c.£900m	c.£900m	£1,087m	✓
EBITDA¹	in line with 2010	c.£5.8bn	£5,886m	✓
Free cash flow³	c.£1.8bn	£2bn	£2,223m	✓
Net debt	<£9bn	<£9bn	£8,816m	✓

¹ before specific items

² operating costs before specific items and depreciation & amortisation

³ before specific items and pension deficit payments

Final dividend and dividend policy

▶ Dividend

- final 5.0p, up 9%
- total 7.4p, up 7%

▶ Committed to progressive dividends at same time as:

- reducing net debt
- supporting the pension scheme
- investing in the business
- delivering growth








A better business



BT Group plc

Ian Livingston, Chief Executive

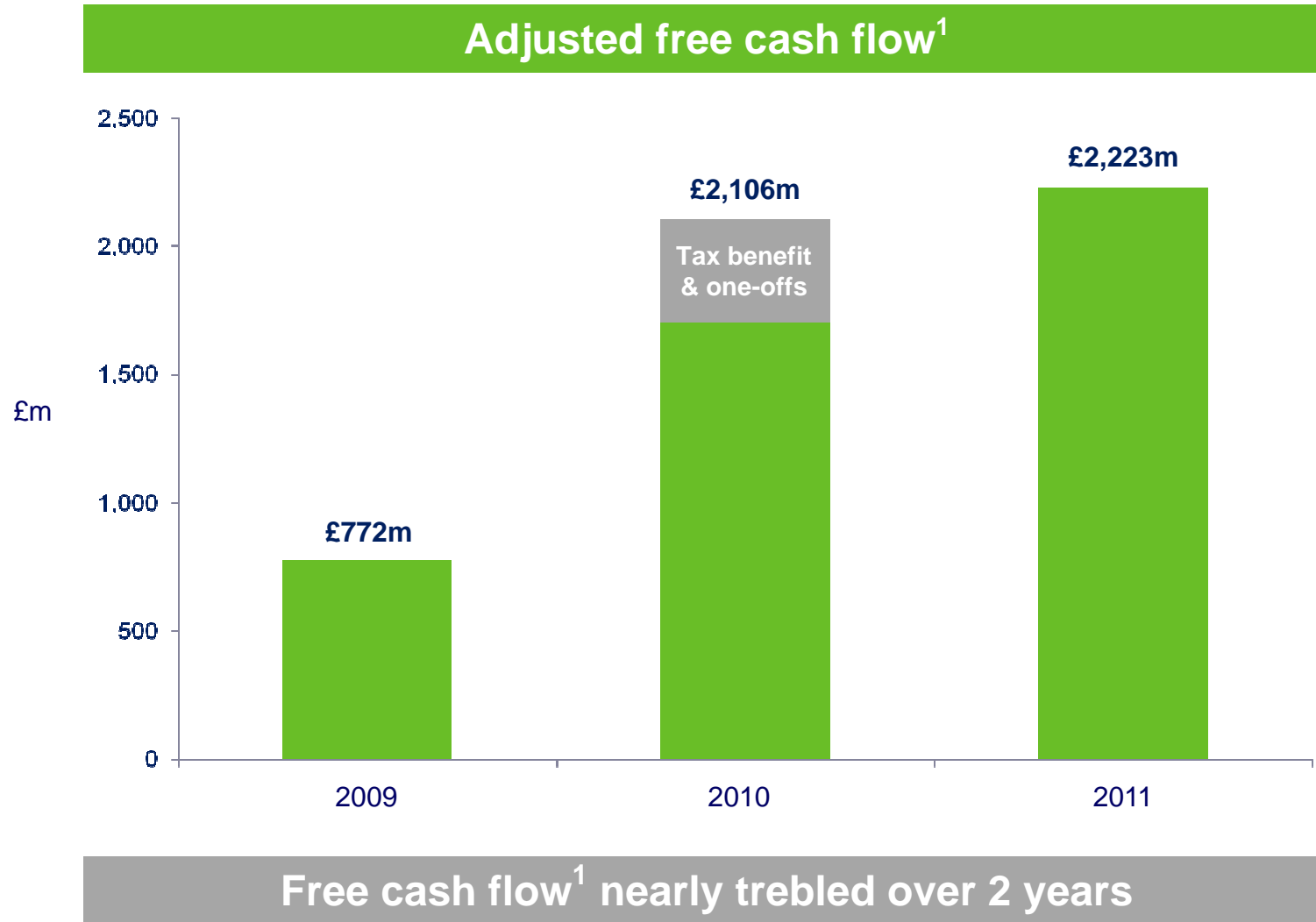
Q4 2011 group results

Revenue¹	£5,055m	6%	
- underlying ex transit		4%	
EBITDA¹	£1,551m	3%	
Profit before tax¹	£610m	21%	
EPS¹	6.2p	22%	
Free cash flow²			
- before specific items	£619m	43%	
- after specific items	£546m	48%	

¹ before specific items

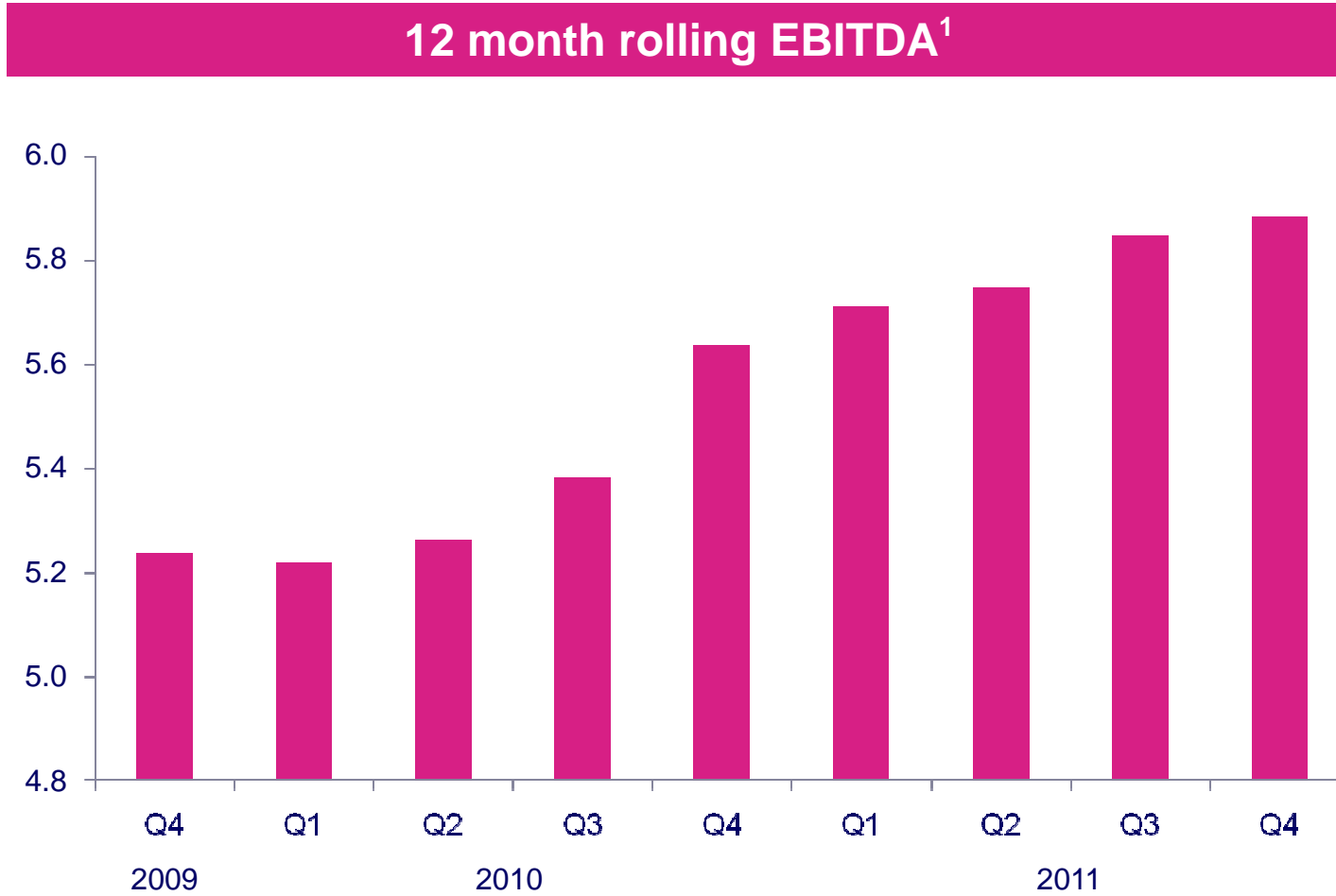
² before pension deficit payments

Free cash flow



¹ before cash specific items and pension deficit payments

EBITDA



¹ before specific items



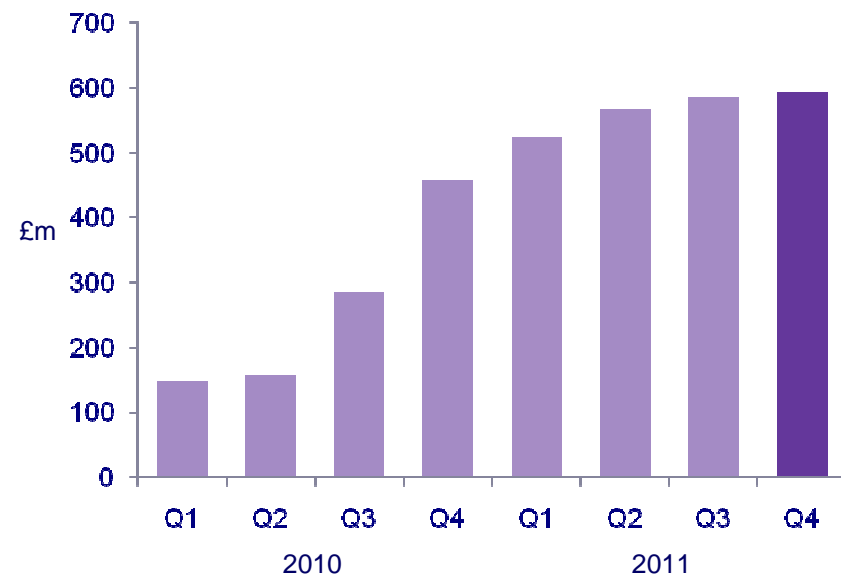
Q4/FY 2011 line of business overview

Global Services

	Q4 2011	Change	FY 2011	Change
Revenue	£2,075m	(9)%	£8,047m	(5)%
EBITDA	£184m	4%	£593m	30%

- ▶ Q4 underlying revenue ex transit down 5%
 - c.£100m prior year contract milestones
- ▶ Q4 net operating costs down 11%
 - down 7% ex transit
- ▶ FY EBITDA up 30%
- ▶ FY operating cash flow £119m
 - £601m improvement

12 month rolling EBITDA¹



¹ before specific items

Q4/FY 2011 line of business overview

Retail

	Q4 2011	Change ¹	FY 2011	Change ¹
Revenue	£1,927m	(4)%	£7,748m	(5)%
EBITDA	£476m	9%	£1,784m	flat

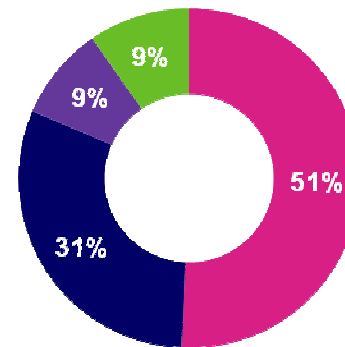
- ▶ Q4 revenue
 - Consumer down 5% - lower call volumes
 - Business flat - lower than expected hardware sales
 - Enterprises down 7% - lower hardware sales in Conferencing
 - Ireland down 4% ex FX & transit - economic climate remains difficult

- ▶ Q4 net operating costs down 8%

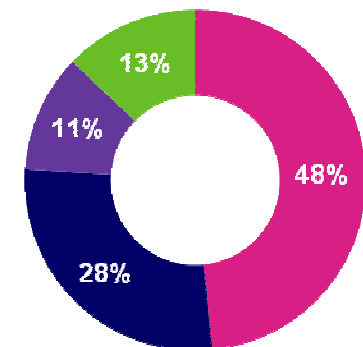
- ▶ All units grew profits in Q4

FY revenue and EBITDA contribution

External revenue



EBITDA contribution



¹ prior year restated for customer account moves

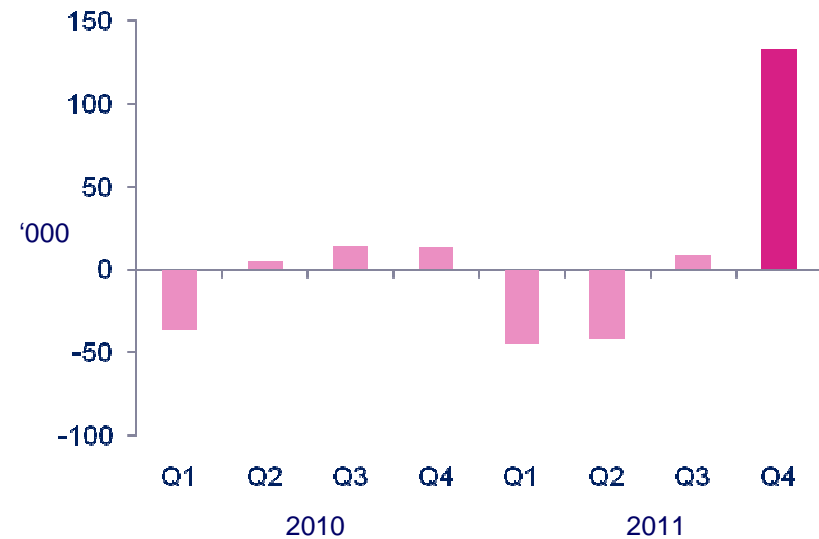
Q4/FY 2011 line of business overview

Wholesale

	Q4 2011	Change	FY 2011	Change
Adjusted revenue	£1,027m	(5)% ¹	£4,210m	(4)% ¹
EBITDA	£321m	(4)% ²	£1,316m	(3)% ²

- ▶ Q4 adjusted revenue ex transit down 4%
 - improving broadband trend
- ▶ Q4 net operating costs¹ down 5%
 - down 4% ex transit
- ▶ Q4 EBITDA down 4%

QoQ change in Wholesale broadband lines



¹ prior year restated for customer account moves and adjusted for changes in internal trading model

² prior year restated for customer account moves

Q4/FY 2011 line of business overview

Openreach

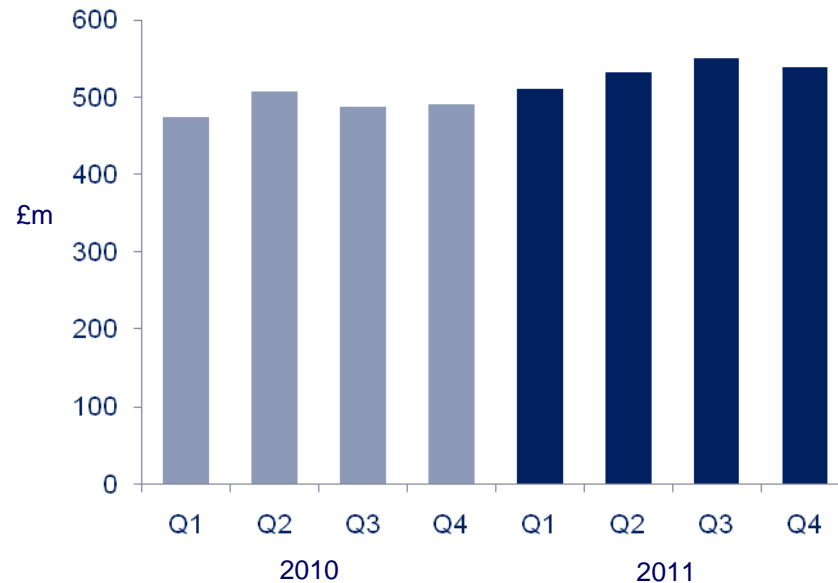
	Q4 2011	Change	FY 2011	Change
Adjusted revenue	£1,255m	2% ¹	£4,930m	(1)% ¹
EBITDA	£539m	10%	£2,132m	9%

- ▶ Q4 adjusted revenue
 - first growth for 9 quarters

- ▶ Q4 net operating costs¹ down 3%
 - ongoing process efficiencies
 - additional investment to meet increased demand

- ▶ Q4 EBITDA up 10%

EBITDA



¹ prior year adjusted for changes in internal trading model

Pension assets and liabilities

Assets¹

March 2010	£35.3bn
contributions	£1.3bn
return on assets	£2.4bn
benefits paid	£(2.0)bn
March 2011	£37.0bn

IAS 19 liabilities¹

March 2010	£43.0bn
real discount rate	1.83%
March 2011	£38.7bn
real discount rate	2.03%

¹ BT Pension Scheme

Pension valuations

	March 2010	March 2011
IAS 19		
- gross of tax	£(7.9)bn	£(1.8)bn
- net of tax	£(5.7)bn	£(1.4)bn
Median estimate ¹	c.£(1.5)bn	c.£3.2bn surplus
Trustee's funding valuation ²	c.£(6.6)bn	c.£(3.2)bn (Dec 2010)

¹ reflects the expected returns from the assets held and likely liabilities

² Trustee's initial estimate using same approach as 2008. Dec 2010 adjusted for the deficit payment of £0.5bn in March 2011

Pension update

- ▶ Pensions Regulator

- 2008 review on hold
-

- ▶ For 2012 we expect

- operating charge to be c.£25m lower
 - pension interest specific item c.£275m better
 - regular cash contributions to be c.£130m lower
 - to revert to around 2011 levels in 2013
-

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



Building a better future



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Customer service delivery

- ▶ Challenges in the year

- ▶ Q4 service improvements

- Global Services customer faults  c.10%
- Wholesale broadband faults  c.15%
- Consumer complaints  c.20%
- Business complaints  c.60%

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Driving broadband-based consumer services

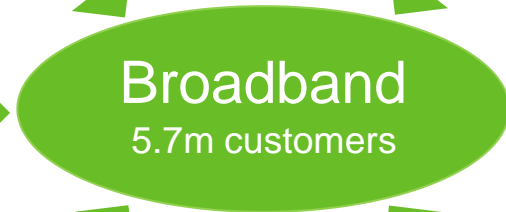
- ▶ Weekly net adds c.5,000
- ▶ 144,000 customers



- ▶ BBC iPlayer
- ▶ HD
- ▶ Recommendation engine
- ▶



- ▶ Award winning broadband



- ▶ OnLive gaming



- ▶ Home Hub 3 with Smart Wireless



- ▶ >2.8m hotspots
- ▶ Lowers churn
- ▶ Usage more than doubled

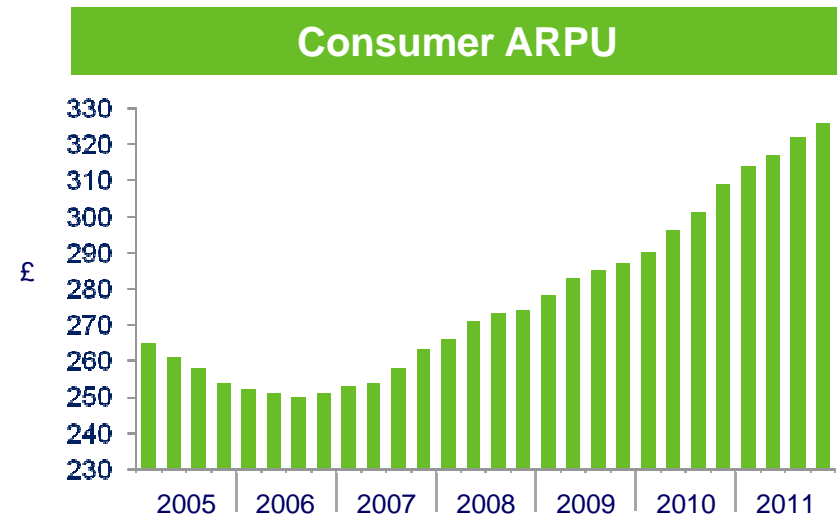
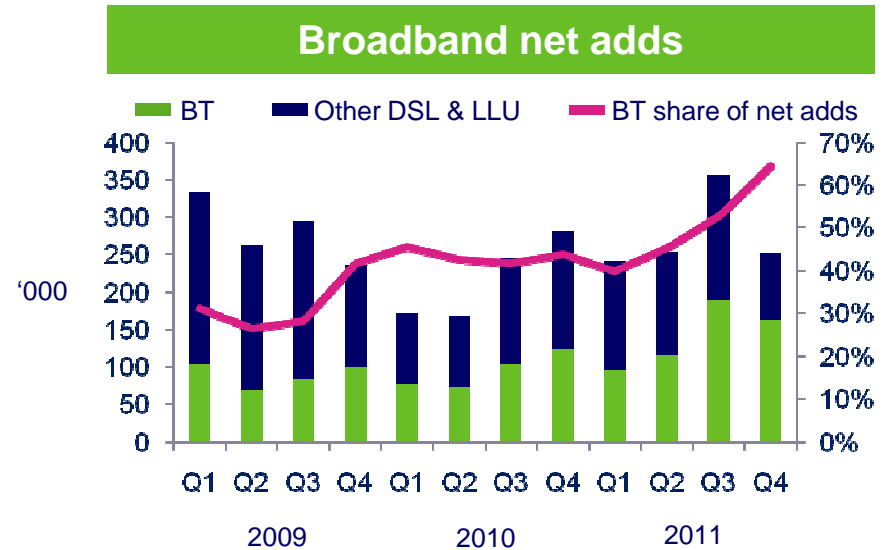


Driving broadband-based consumer services

- ▶ 64% share of broadband net adds¹ in Q4
 - highest retail net adds for 8 years
 - highest ever including cable
 - c.90% of new broadband provides in Q4 were part of a bundle

- ▶ Active customer loss in Q4 lowest for 4 years

- ▶ Consumer ARPU up 5% to £326



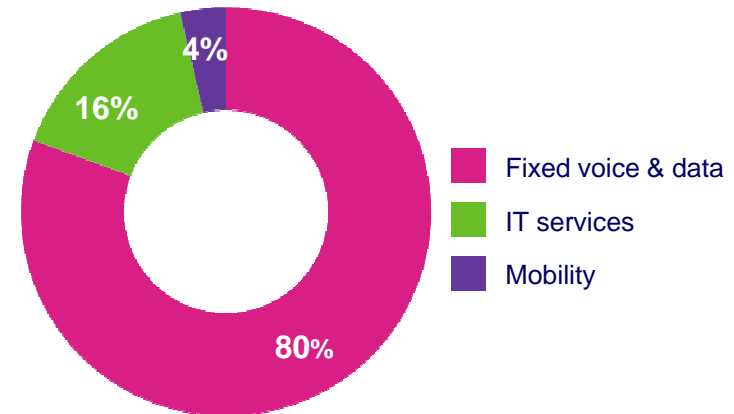
¹ DSL and LLU



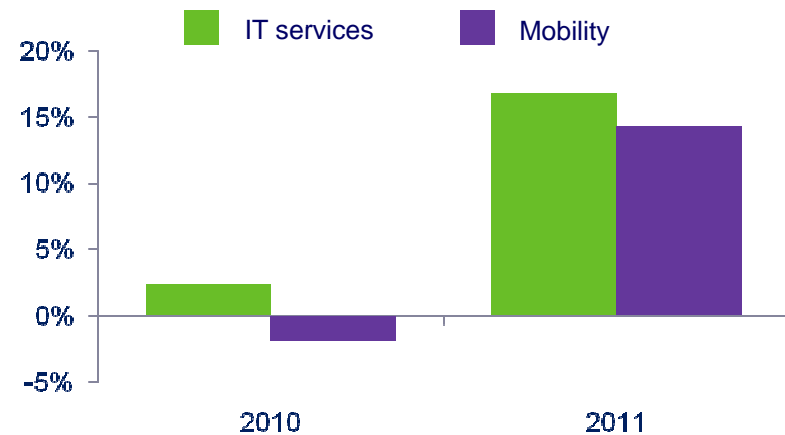
Being the 'Brand for Business' for UK SMEs

- ▶ BT Business line loss in Q4 at lowest level for more than 3 years
- ▶ New business broadband propositions launched
 - FY business broadband net adds up c.30% YoY
- ▶ Focus on IT services and mobility
 - IT services revenue up 17% FY
 - Mobility revenue up 14% FY
 - opportunity to increase market share

2011 BT Business revenue c.£2.4bn



IT services and mobility revenue trend



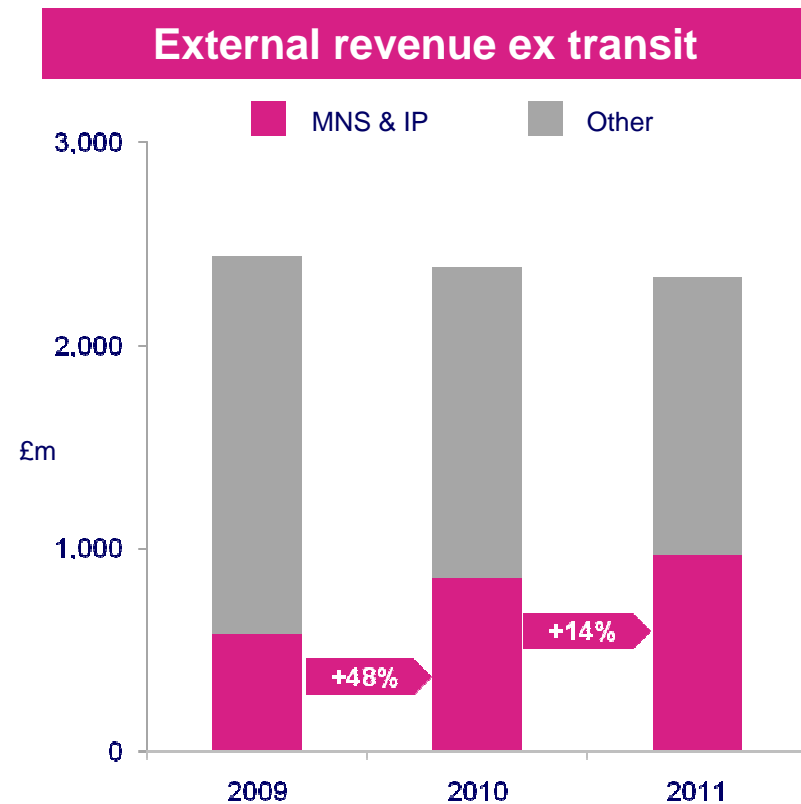
BT Global Services – a global leader

- ▶ Order intake
 - £7.3bn in year, up 10%
- ▶ Contract wins in Q4
 - Ecopetrol
 - BASF
- ▶ AsiaPac
 - investment on track
 - growing pipeline
- ▶ Strong growth in LatAm
- ▶ New structure
 - focus on key global sectors
 - industry specific solutions
 - global account management and delivery model



The wholesaler of choice

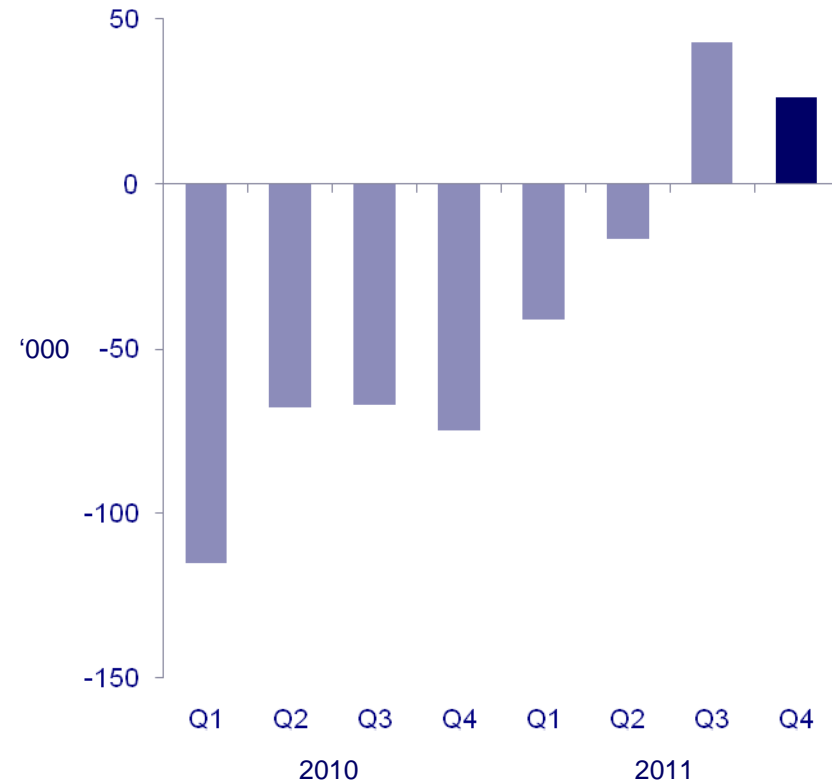
- ▶ 40% of FY external revenue under long-term contract
- ▶ Executing on existing MNS contracts
- ▶ Portfolio evolving from traditional to IP
 - MNS & IP revenue up 14% FY
 - IP Exchange minutes up more than 75% FY
 - fixed Ethernet connections trebled



The best network provider

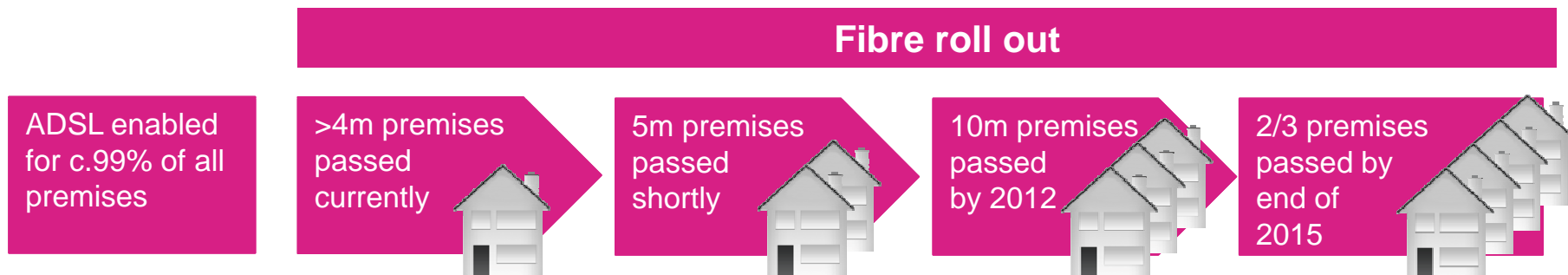
- ▶ Copper line base grew for first time since 2006
 - up 11,000 FY versus down 326,000 last year
- ▶ ADSL2+ available to 80% of UK premises by December 2011
- ▶ Ethernet - 1,000 fibre Ethernet nodes, largest network in the UK
- ▶ Continued investment overseas
 - Ethernet, MPLS & city fibre

QoQ change in total copper lines



The best network provider

- ▶ Fibre roll out progressing at a good pace
 - passing around 80,000 new premises per week
 - 5m homes to be passed in next few weeks
 - c.150,000 end users currently
 - c.45 CPs selling or trialling services
 - Cornwall and NI progressing well
- ▶ Network capabilities
 - expect to roughly double our FTTC speeds to up to 80Mbps in 2012
 - potential for >100Mbps FTTC
 - FTTP roll out commencing, 1 Gbps trial underway

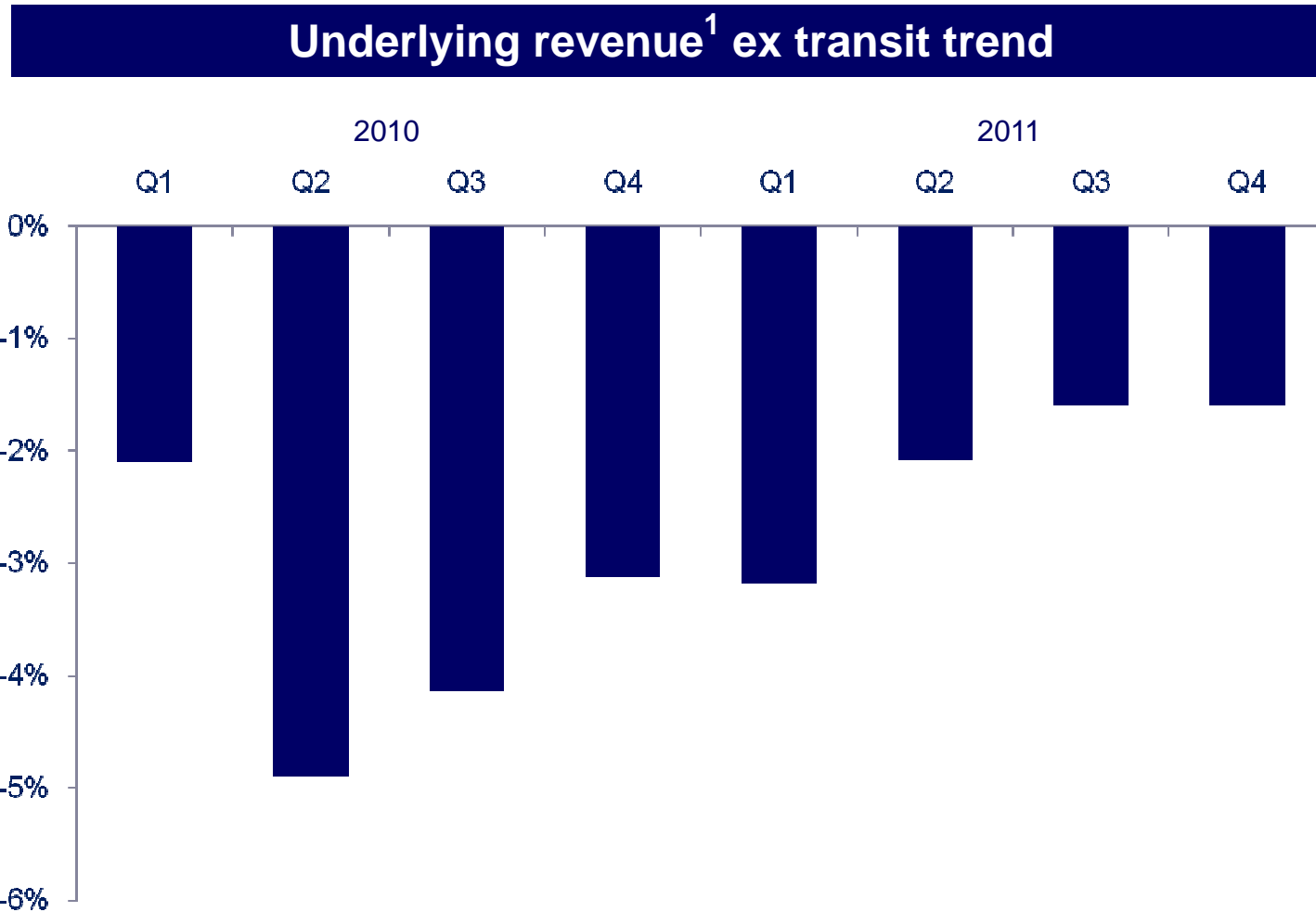


Building a better future

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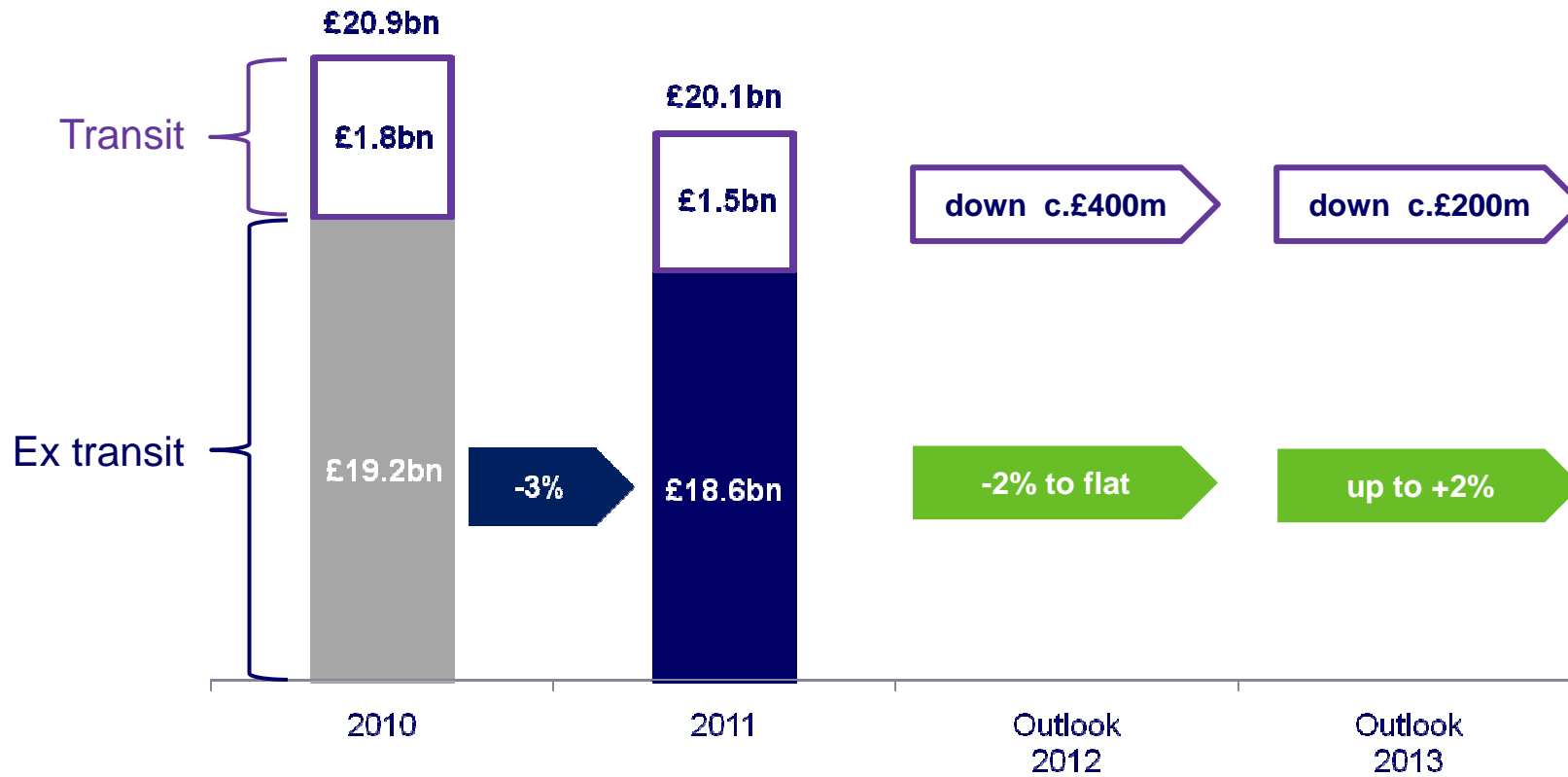


Revenue



¹ before specific items and excluding previously disclosed one-off benefits and charges

Underlying revenue¹ ex transit trend



Focus is long-term profitable revenue growth

¹ before specific items



Outlook 2012 & 2013

Underlying revenue¹ ex transit

- ▶ 2012 – down 2% to flat
 - ▶ 2013 – to grow up to 2%
-

Adjusted EBITDA¹

- ▶ 2012 – growth
 - ▶ 2013 – above £6bn
-

Free cash flow²

- ▶ Above 2011 level in 2012 and 2013
-

¹ before specific items

² before specific items and pension deficit payments

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A better future

more progress

more to do

A better business



BT Group plc

Tony Chanmugam, Group Finance Director

Income statement

£m	Q4 2011	Change	FY 2011	Change
Revenue¹	5,055	(6)%	20,076	(4)%
- underlying ex transit		(4)%		(3)%
EBITDA¹	1,551	3%	5,886	4%
Operating profit¹	789	9%	2,907	12%
Net finance expense ¹	(186)	(18)%	(845)	(5)%
Profit before tax¹	610	21%	2,083	20%
Tax ¹	(132)	17%	(452)	14%
Specific items	(5)	n/m	(127)	n/m
Reported EPS	6.1p	126%	19.4p	46%
Adjusted EPS¹	6.2p	22%	21.0p	21%

¹ before specific items

Free cash flow

£m	Q4 2011	Change	FY 2011	Change
EBITDA¹	1,551	39	5,886	247
Capex	(748)	(49)	(2,630)	(150)
Interest	(219)	(29)	(944)	7
Tax	(100)	(82)	(209)	(343)
Working capital/Other	135	(349)	120	356
Free cash flow before specifics	619	(470)	2,223	117
Specific items	(73)	(29)	(212)	(39)
Free cash flow after specifics	546	(499)	2,011	78
Net debt			8,816	(467)

¹ before specific items

Operating cash flow by line of business

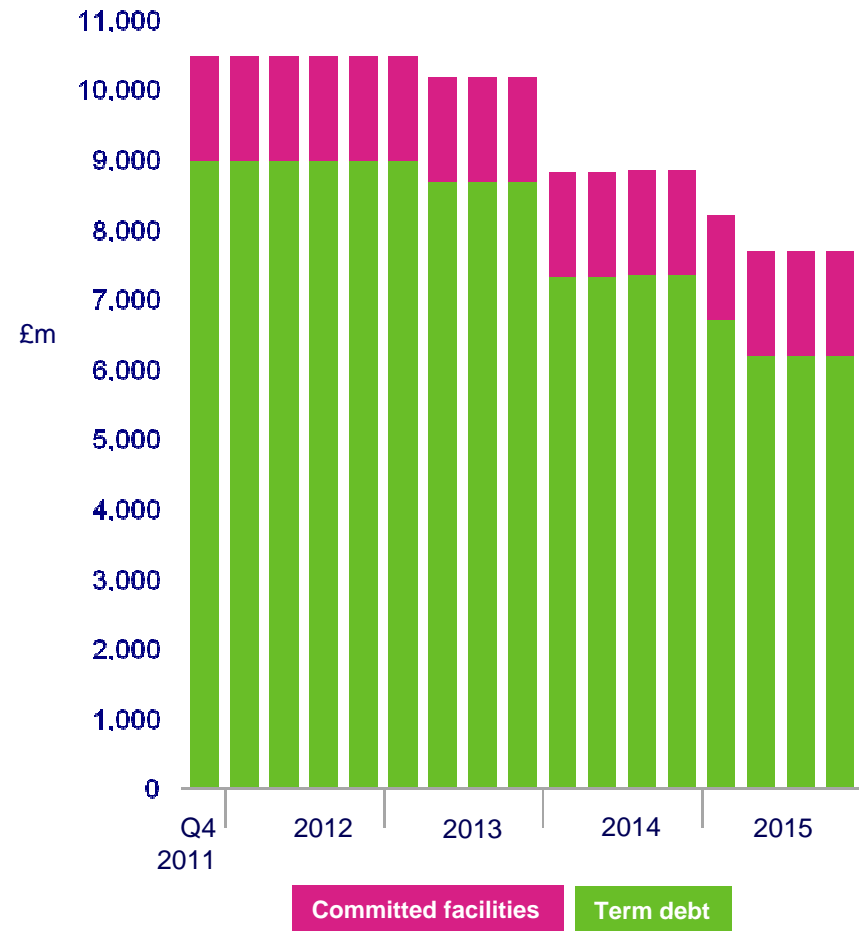
£m	FY 2011	Change
Global Services	119	601
Retail	1,382	(184)
Wholesale	911	(6)
Openreach	1,078	(89)
LoB operating free cash flow	3,490	322
Other (inc. tax, interest)	(1,267)	(205)
Group free cash flow¹	2,223	117

¹ before specific items and pension deficit payments of £1,030m in 2011, £525m in 2010

Debt and liquidity

- ▶ Net debt of £8.8bn at March 2011
- ▶ Cash and investments at March 2011 of £0.4bn
- ▶ Committed facility of £1.5bn
 - new five-year multi-currency revolving facility
 - longer maturity date than previous facilities
- ▶ No major maturities until 2013
- ▶ Ability to take advantage of opportunities in the debt market
- ▶ Targeting improvement in credit rating

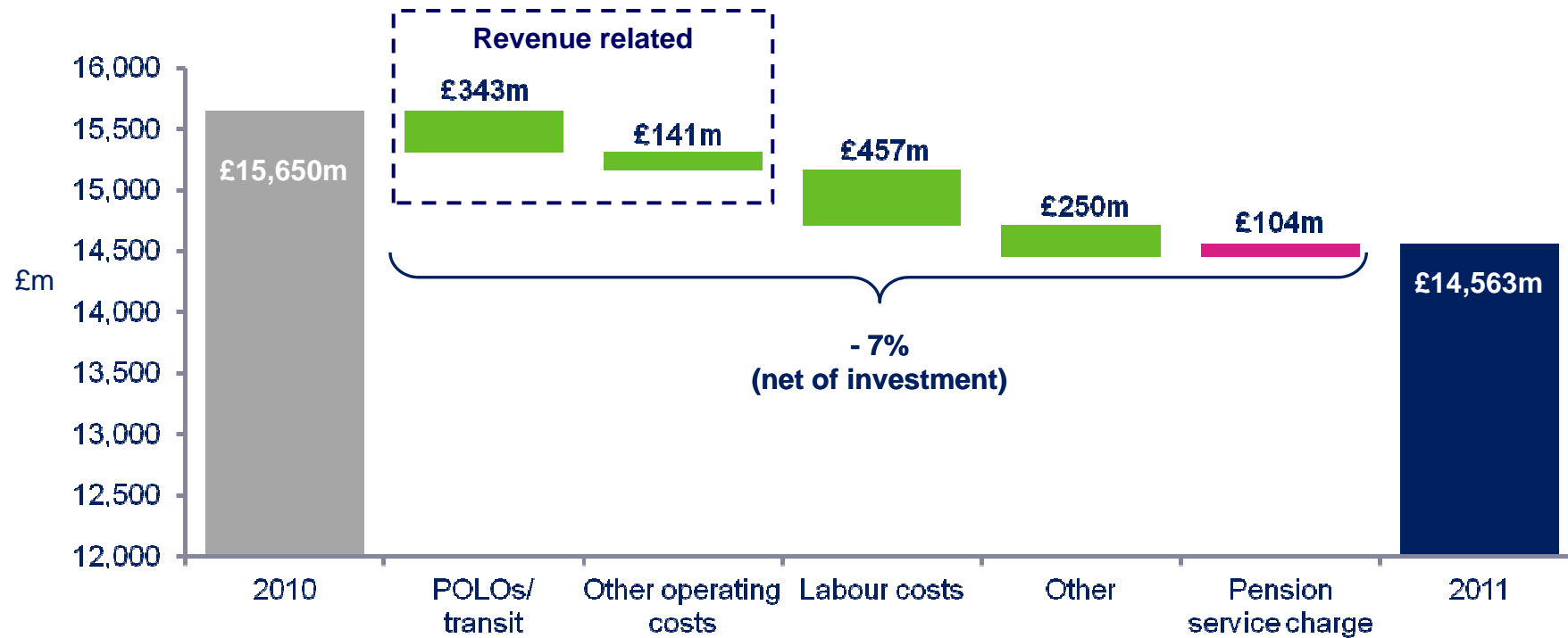
Total term debt and committed facilities¹



¹ assuming no renewal or new facilities



2011 cost transformation¹



- ▶ Supplier renegotiations
- ▶ Focus on added value activities
- ▶ Process re-engineering

£1,087m opex reduction in 2011

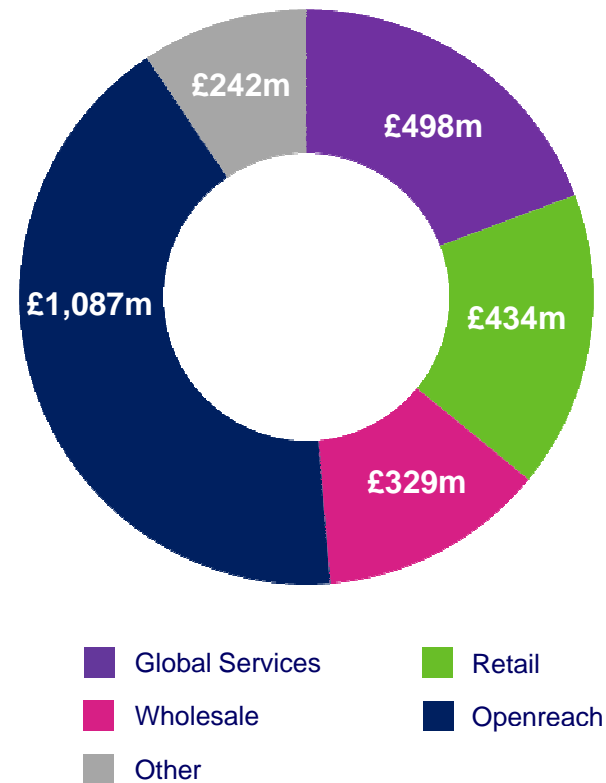
¹ before specific items, depreciation & amortisation and other operating income



Capital expenditure

- ▶ Fibre
 - £0.6bn spent to date, includes substantial fixed costs
 - FTTC unit cost declining
 - FTTP just starting deployment
 - in line with plans, on track for £2.5bn
- ▶ Ongoing investment
 - expanding network coverage
 - higher speed solutions

Capital expenditure by line of business



Capital expenditure expected to continue at c.£2.6bn

Free cash flow¹



¹ before cash specific items and pension deficit payments

Free cash flow 2012 movements

▶ Tax

- expected to be c.£250m higher than 2011
- includes £73m benefit from pension deficit prepayment (£68m negative impact 2013)



▶ Interest

- broadly offsets higher tax



▶ Working capital

- c.£100m benefit in 2011 not repeated



▶ Other

- lower regular pension contributions



▶ Specific items

- c.£150m outflow



Free cash flow¹ to be above 2011 level in 2012 and 2013

¹ before cash specific items and pension deficit payments

Financial strategy to 2013

2011



2013

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