

*A better business*



*A better future*

**BT Group plc**

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**Q4/full year 2012 results**

**10 May 2012**

# Forward-looking statements caution

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: outlook, including revenue trends, EBITDA and free cash flow growth, BT Global Services' EBITDA, restructuring costs, operating cash flow and revenue growth in higher growth economies; net debt reduction and credit rating, shareholder returns including growing dividends and share buyback; the pension scheme recovery plan, operating charge, regular contributions and interest; capital expenditure; effective tax rate; our fibre roll-out programme reach and innovations, increased speeds and speed availability; and the impact of regulation.

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Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the BT Global Services restructuring programme not being achieved; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.



Bringing it all together

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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

<b>Revenue<sup>1</sup></b>	£19,307m	4%	
- underlying revenue ex transit		1.9%	
<b>EBITDA<sup>1</sup></b>	£6,064m	3%	
<b>Profit before tax<sup>1</sup></b>	£2,421m	16%	
<b>EPS<sup>1</sup></b>	23.7p	13%	
<b>Free cash flow<sup>2</sup></b>	£2,522m	13%	
<b>Net debt<sup>3</sup></b>	£9,082m	up £266m	

<sup>1</sup> before specific items

<sup>2</sup> before specific items and pension deficit payments

<sup>3</sup> 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

**EPS<sup>1</sup>**

up 68%



**Free cash flow<sup>2</sup>**

more than tripled



**Deficit contributions into pension fund**

£3.6bn

**Net debt**

down £1.3bn



**Total shareholder return<sup>3</sup>**

up 224%



<sup>1</sup> before specific items and BT Global Services contract and financial review charges in 2009

<sup>2</sup> before specific items and pension deficit payments

<sup>3</sup> 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	
<b>Underlying revenue ex transit<sup>1</sup></b>	Down 2% to flat	Down 1.9%	✓
<b>EBITDA<sup>1</sup></b>	<b>2012</b> >£5.9bn	£6.1bn	✓
	<b>2013</b> >£6bn	one year early	
<b>Free cash flow<sup>2</sup></b>	>£2.2bn	£2.5bn	✓

<sup>1</sup> before specific items

<sup>2</sup> before specific items and pension deficit payments

# Q4 2012 group results

<b>Revenue<sup>1</sup></b>	£4,875m	4%	
- underlying revenue ex transit		2.0%	
<b>EBITDA<sup>1</sup></b>	£1,609m	4%	
<b>Profit before tax<sup>1</sup></b>	£690m	13%	
<b>EPS<sup>1</sup></b>	6.8p	10%	
<b>Free cash flow<sup>2</sup></b>	£909m	47%	

<sup>1</sup> before specific items

<sup>2</sup> before specific items and pension deficit payments

# Q4/FY 2012 line of business overview

## Global Services

	Q4 2012	Change <sup>1</sup>	FY 2012	Change <sup>1</sup>
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

<sup>1</sup> prior year restated for the impact of customer account moves

# Q4/FY 2012 line of business overview

## Global Services – a global leader

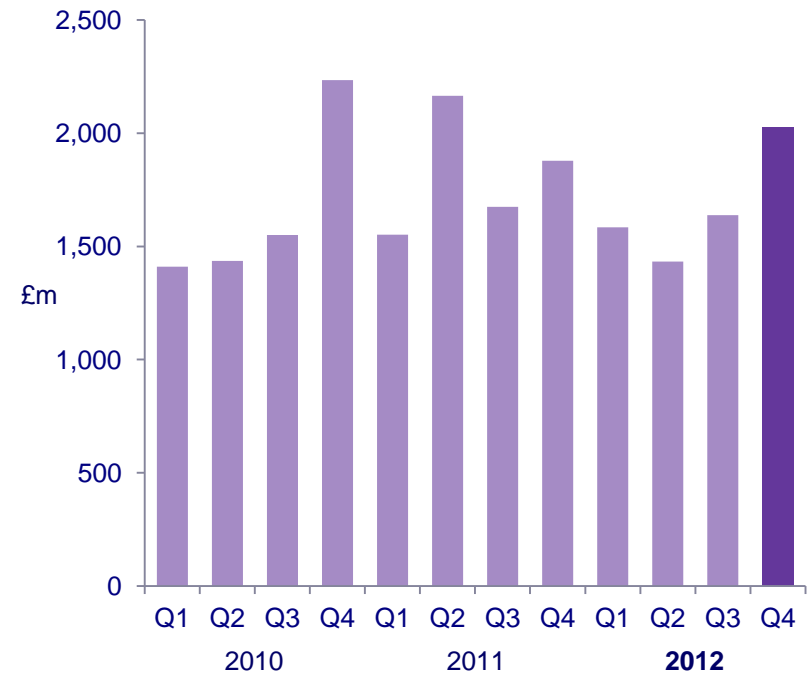
### ► Order intake

- 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

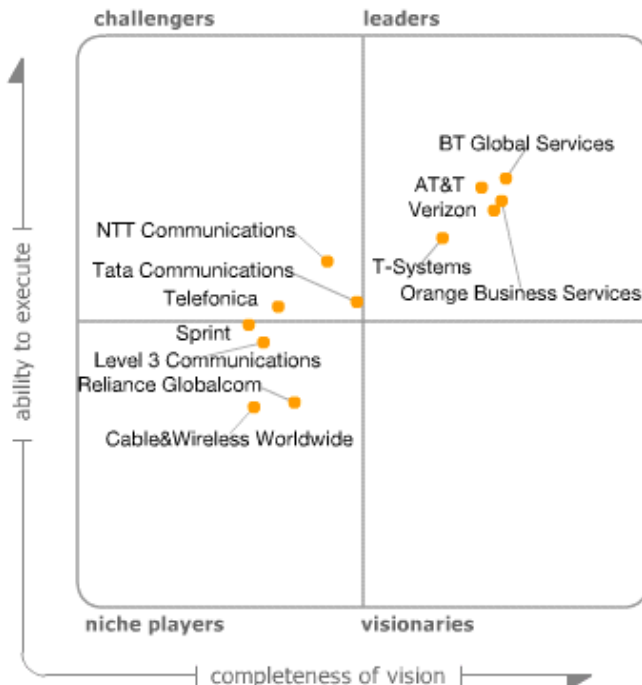
- FY revenue up 16%
- FY order book up >60%
- Aim to add c.£500m of revenue over medium term

# Q4/FY 2012 line of business overview

## Global Services – a global leader

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

Global – April 2012<sup>1</sup>



Pan-European – April 2012<sup>2</sup>



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

<sup>2</sup> 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 <sup>1</sup>	FY 2012	Change <sup>1</sup>
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

Enterprises<sup>2</sup>

2%



▶ Good performance in BT Conferencing

Ireland<sup>2</sup>

4%



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

### ▶ Q4 net operating costs down 5%

<sup>1</sup> prior year restated for the impact of customer account moves

<sup>2</sup> excluding FX

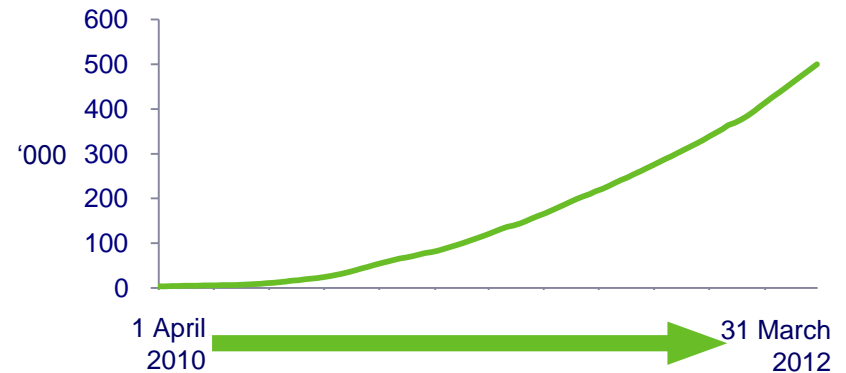


# Q4/FY 2012 line of business overview

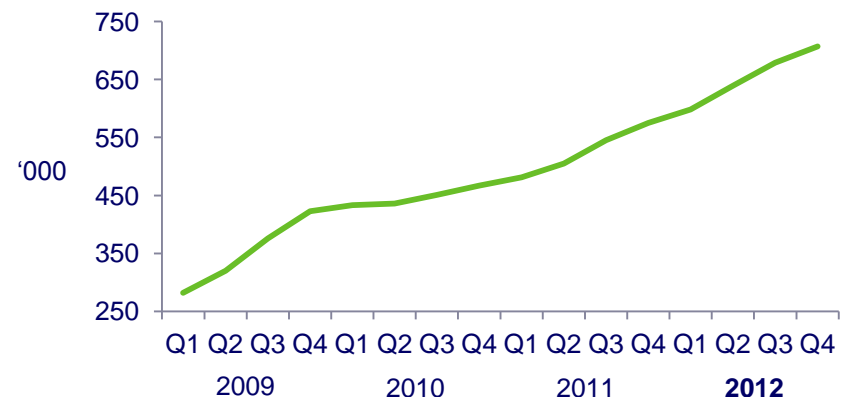
## Driving broadband-based consumer services

- ▶ FY active consumer line loss 30% better YoY
- ▶ 44% share of broadband<sup>1</sup> 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



<sup>1</sup> 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 & lines<sup>1</sup>



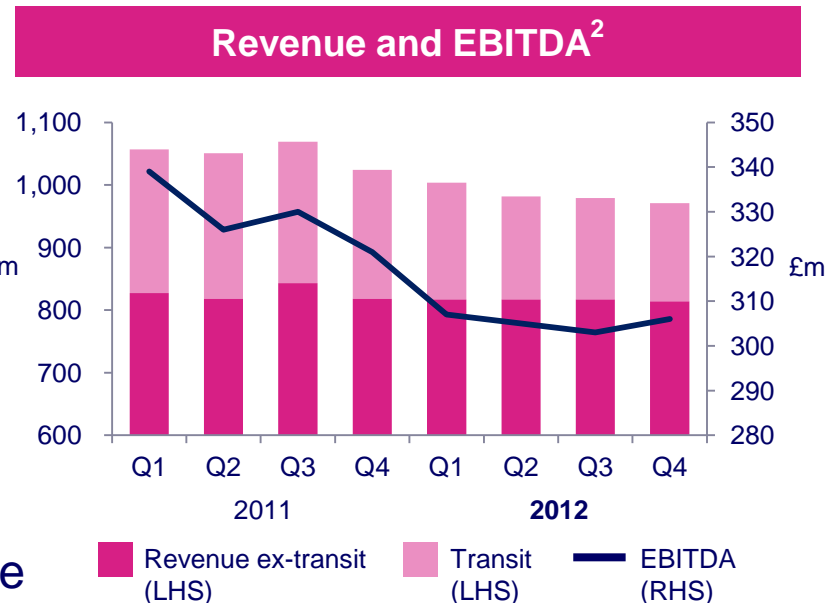
<sup>1</sup> Ofcom Telecommunications Market Data Update Q4 2011

# Q4/FY 2012 line of business overview

## Wholesale

	Q4 2012	Change <sup>1</sup>	FY 2012	Change <sup>1</sup>
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



<sup>1</sup> prior year restated for the impact of customer account moves

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

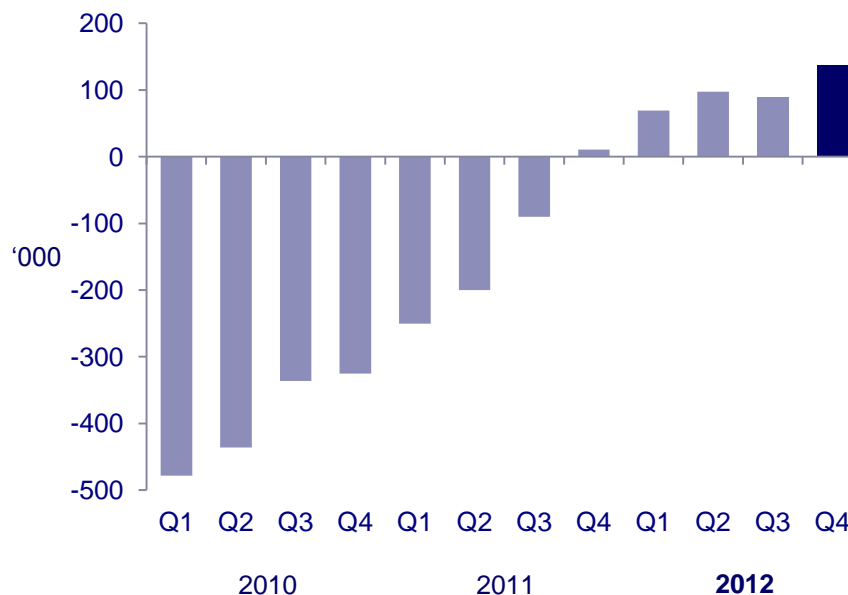
# Q4/FY 2012 line of business overview

## Openreach

	Q4 2012	Change <sup>1</sup>	FY 2012	Change <sup>1</sup>
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



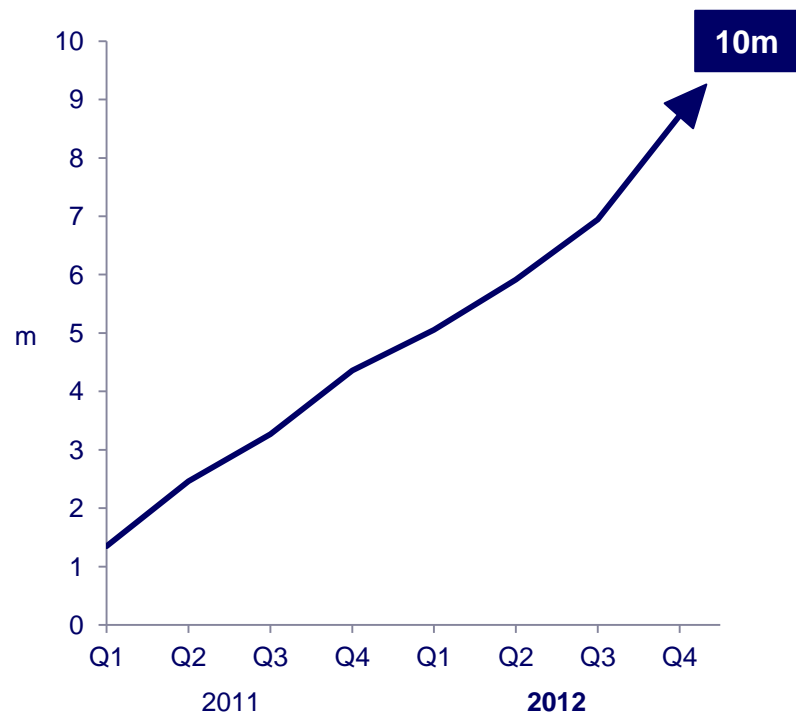
<sup>1</sup> prior year restated for the impact of customer account moves

# 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 revenue<sup>1</sup>

- ▶ 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

<sup>1</sup> underlying revenue excluding transit



# Outlook EBITDA<sup>1</sup>

## ▶ Growth in 2013 & 2014

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

<sup>1</sup> before specific items

# Outlook normalised free cash flow<sup>1</sup>

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

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

<sup>1</sup> 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



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**Tony Chanmugam, Group Finance Director**

# Q4 2012 income statement

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

<sup>1</sup> before specific items

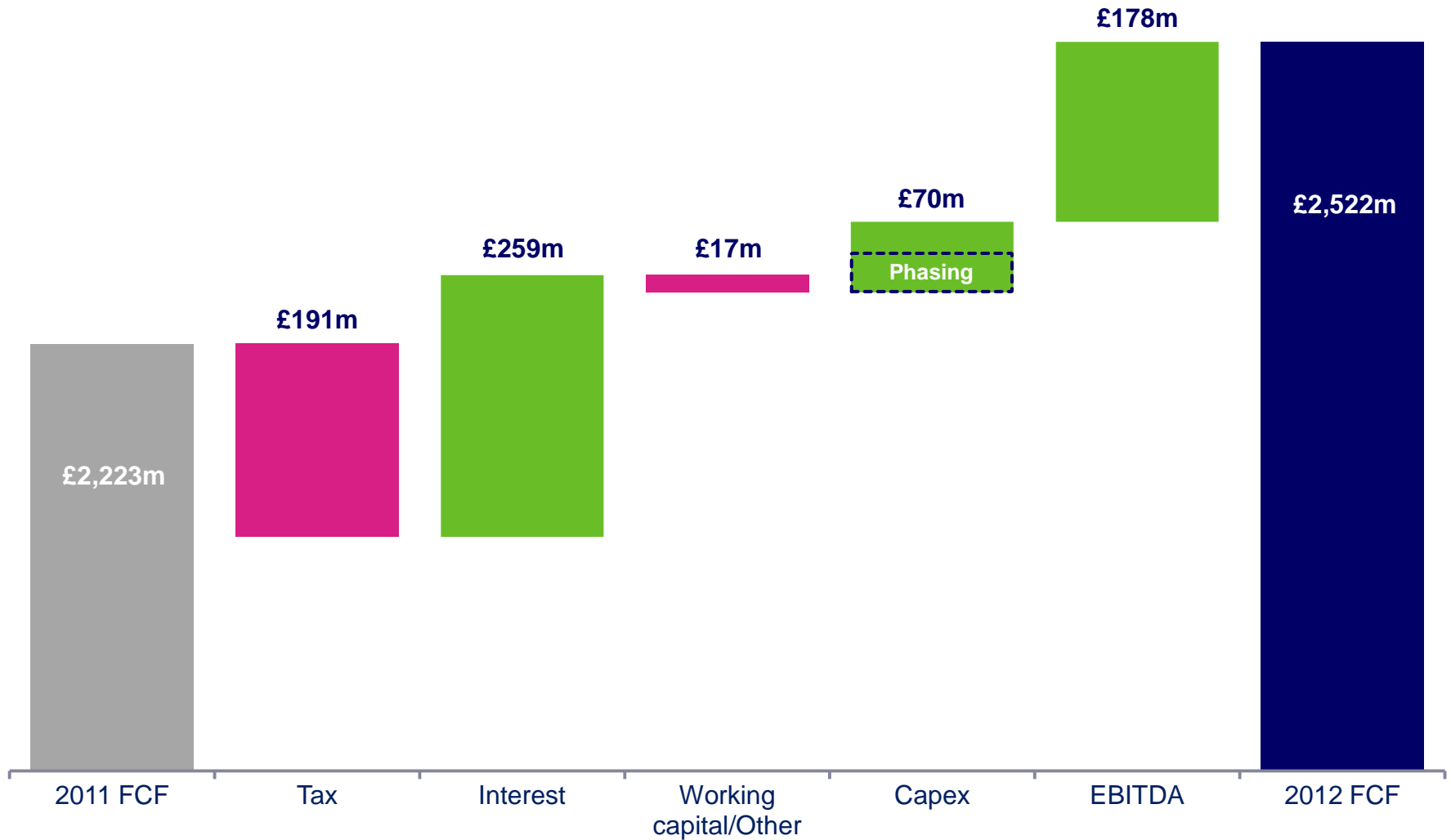
# Q4 2012 free cash flow

£m	Q4 2012	Change	Key points
<b>EBITDA<sup>1</sup></b>	<b>1,609</b>	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
<b>Adjusted FCF<sup>2</sup></b>	<b>909</b>	290	
Specific Items	(53)	20	▶ GS restructuring & property rationalisation
<b>Reported FCF</b>	<b>856</b>	310	

<sup>1</sup> before specific items

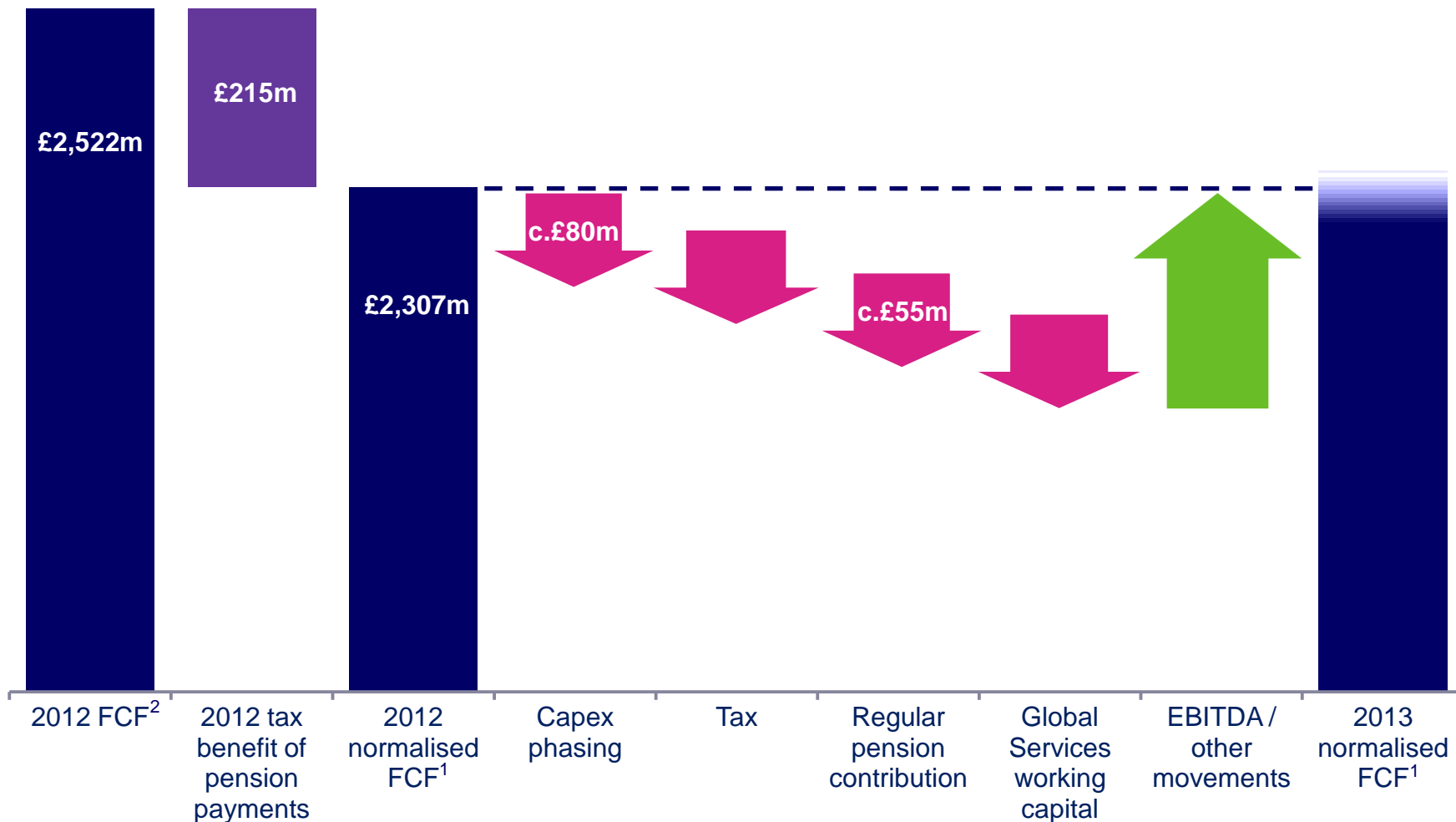
<sup>2</sup> before specific items and pension deficit payments

# FY 2012 free cash flow<sup>1</sup>



<sup>1</sup> before specific items and pension deficit payments

# FY 2013 normalised free cash flow<sup>1</sup>

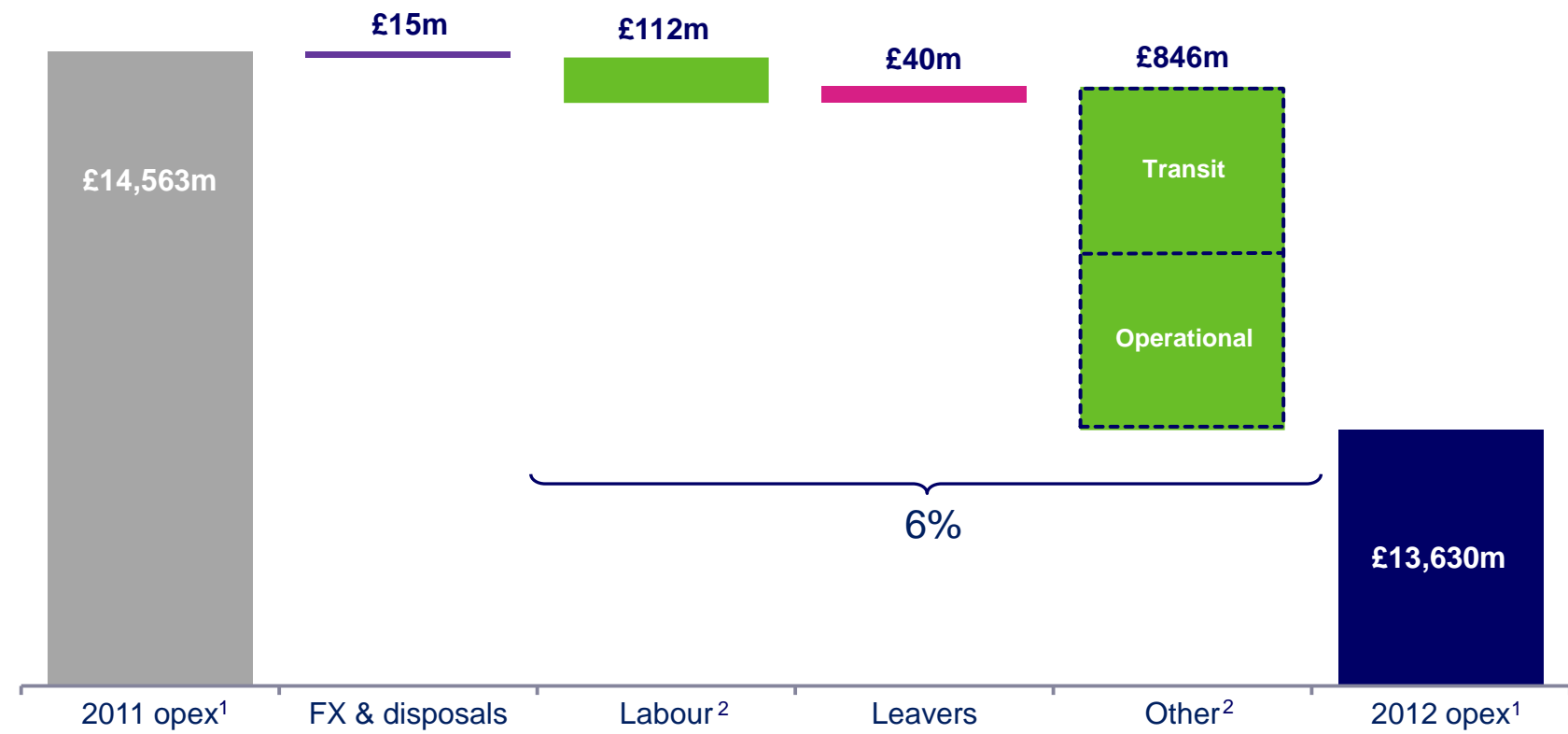


<sup>1</sup> before specific items, pension deficit payments and cash tax benefit of pension deficit payments

<sup>2</sup> before specific items and pension deficit payments



# FY 2012 cost transformation



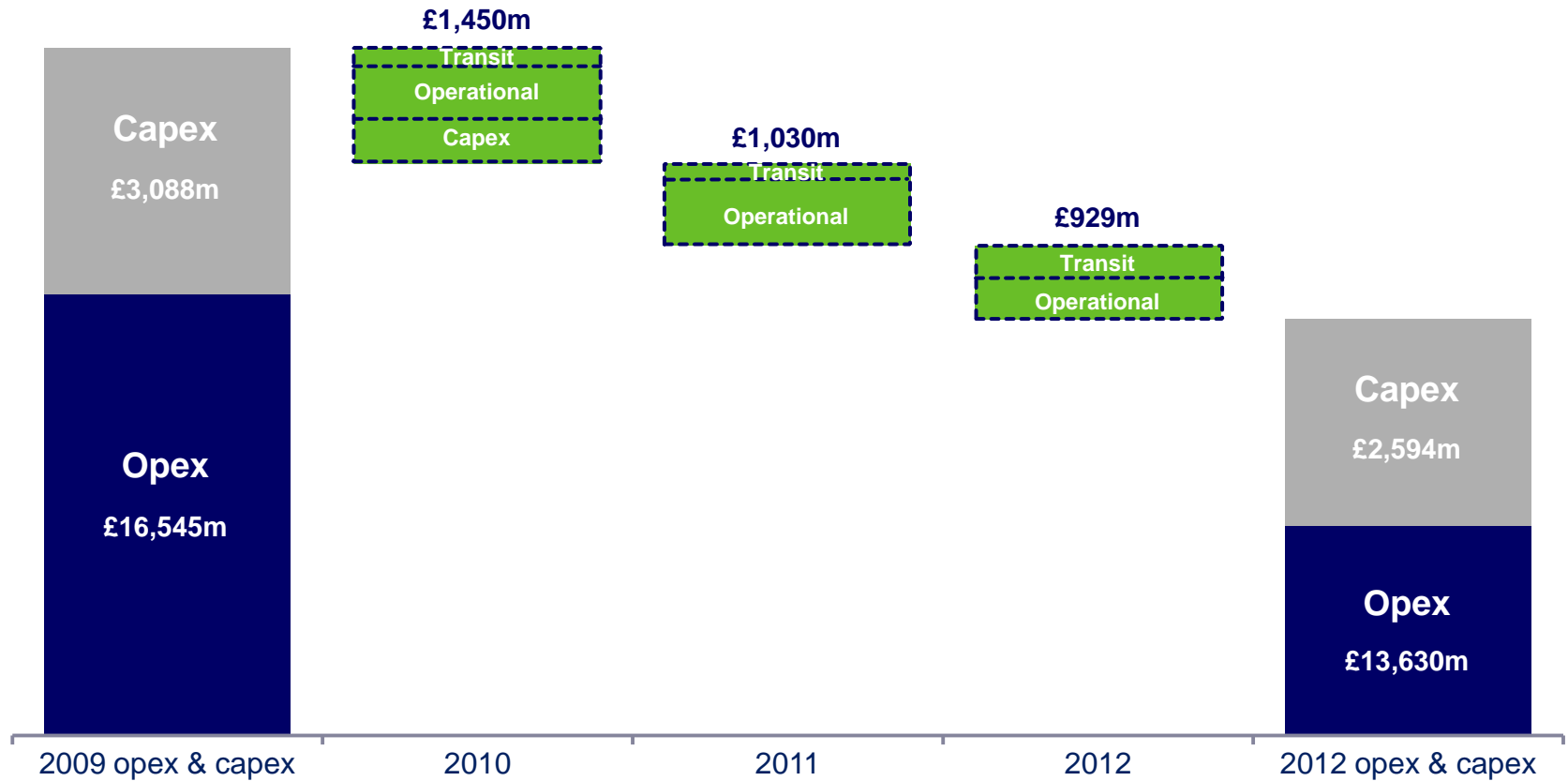
**£242m opex<sup>1</sup> reduction in Q4**

**£933m opex<sup>1</sup> reduction in FY**

<sup>1</sup> before specific items, depreciation & amortisation and other operating income

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

# Three year opex<sup>1</sup> and capex reduction

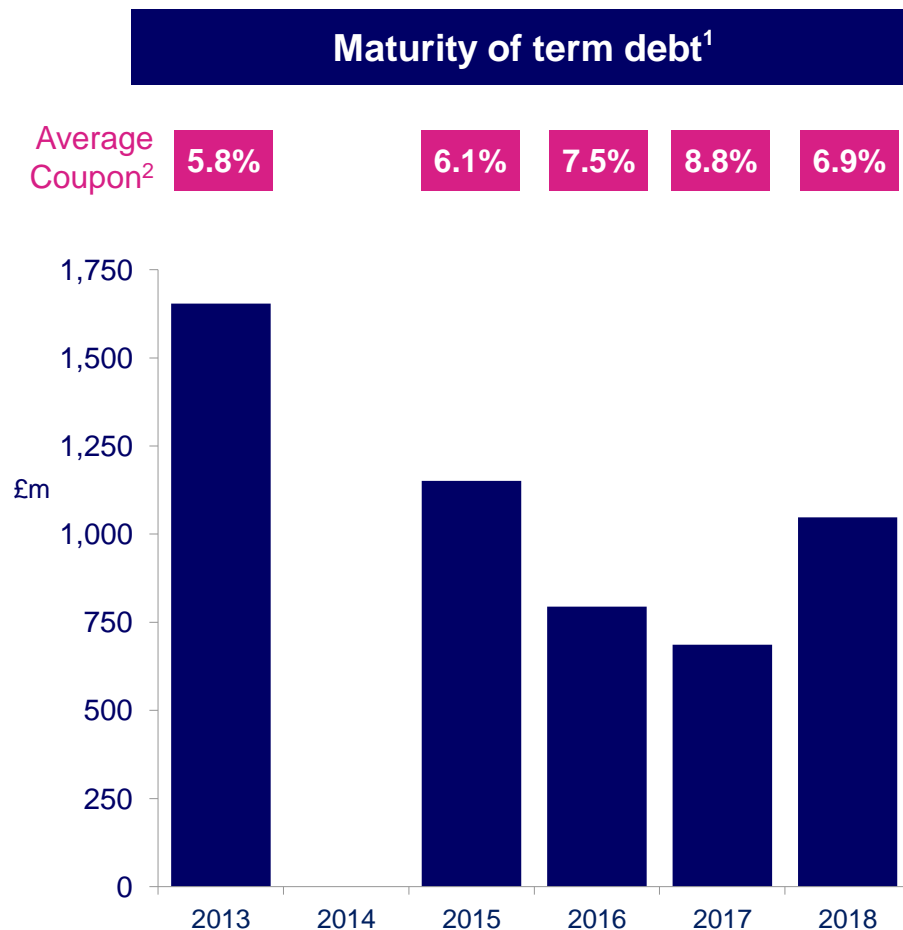


**Opex and capex reduced by £3.4bn in the last three years**

<sup>1</sup> 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



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

<sup>2</sup> 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

## ▶ Revenue<sup>1</sup>

- 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

<sup>1</sup> 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**