

# Consistent delivery in a dynamic environment



Q3 results 2005/6

9th February 2006



# BT Group plc

Q3 results 2005/6

Ben Verwaayen - CEO



# 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: continued growth in new wave revenue, mainly from networked IT services, broadband and mobility growth; the benefits of convergence, implementation of BT's 21<sup>st</sup> Century Network; introduction of next generation services; and expectations regarding cost efficiencies, earnings per share and EBITDA.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

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, including broadband and other new wave initiatives, not being realised; and general financial market conditions affecting BT's performance.

BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.



# Consistent delivery in a dynamic environment

## Drivers

- Consistent strategy
- Regulatory certainty in place
- Capitalising on convergence
- Customer engagement
- Global reach with local service
- Innovation in services and solutions

## Delivery

8 quarters of *revenue growth*

15 quarters of *EPS\* growth*

\* Pre specific items and leaver costs



# Q3 2005/6 - Overview

## Operational performance

- Group revenue **up 8%\***
  - 20% increase in Corporate revenues
  - 16% rise in Carrier revenue
- Group EBITDA improving trend continues
  - BT Retail EBITDA rose 9%
- Earnings per share **up 4%\*\***

## Strategic direction

- Annualised order intake remains **over £8bn**
- LLU delivery capabilities proven
  - Openreach now operational
- 700,000 net DSL additions
  - BT Retail share of net adds **31%**

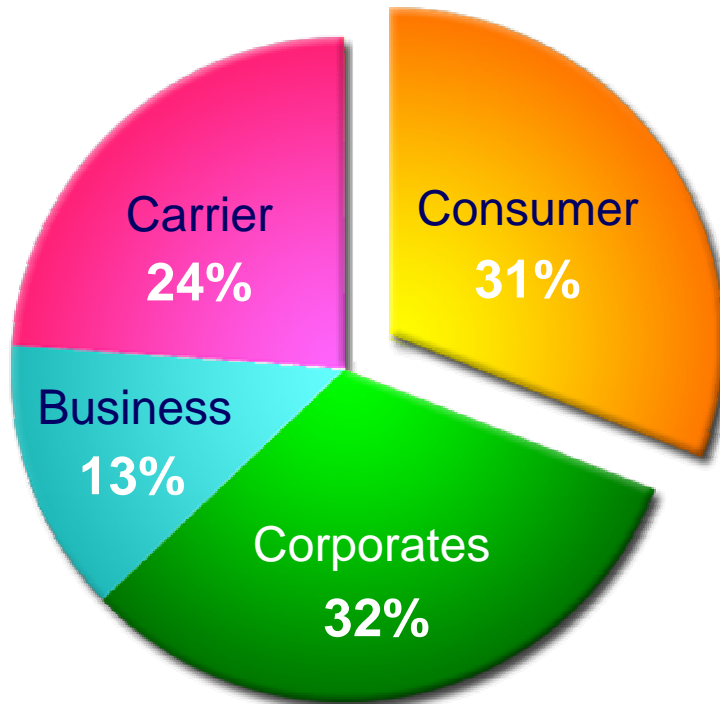
\* Underlying growth is 3.2%, excluding acquisitions

\*\* Before leavers and specific items

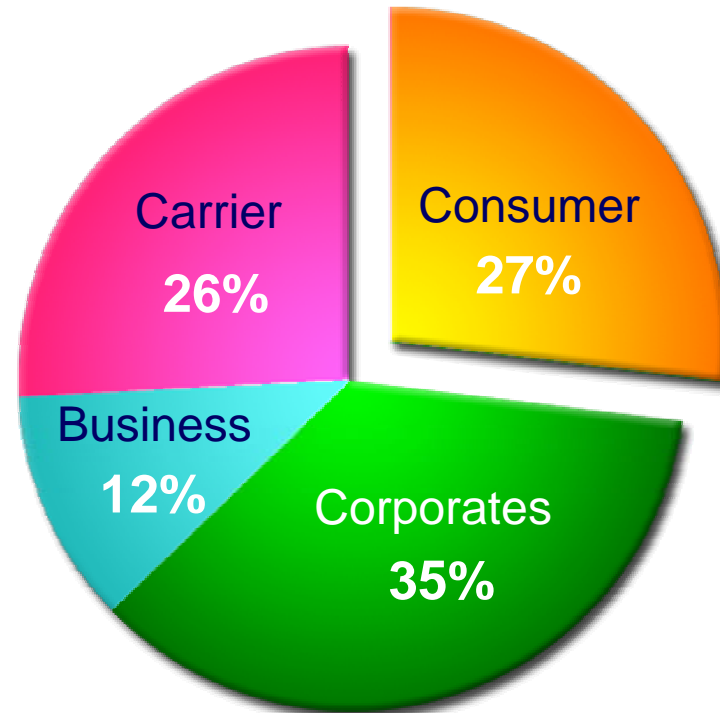


# Revenue - customer segmentation

**2004/5**  
Q3 Group Revenue



**2005/6**  
Q3 Group Revenue



# Consumer

Accounts for 27% of our revenues

- 66% of total under contract
- new wave rose 43%

- Voice

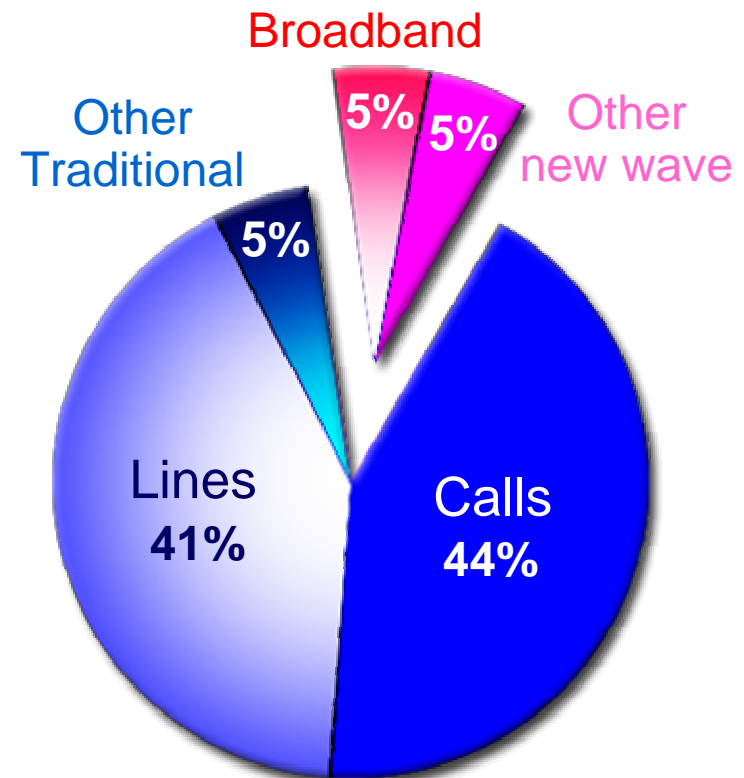
- BT Privacy, 2.9m subscribers
- BT Together, 2.0m on Option II & III
- BT VoIP, customer base growing

- Broadband

- 176,000 net additions in Q3 (Consumer only)

Q3 2005/6

Revenue **£1.3bn**



# Consumer - VoIP pricing



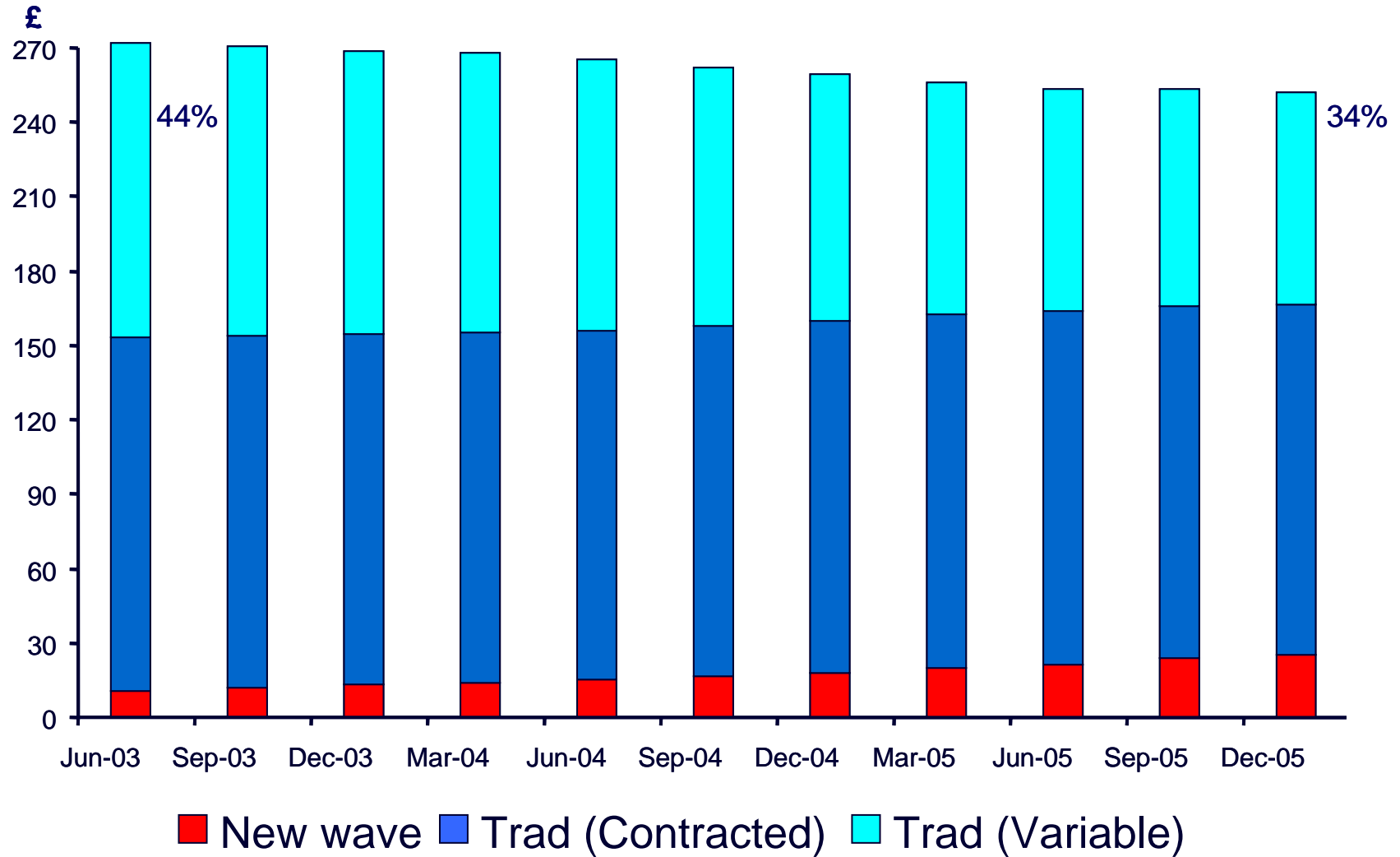
Pence per minute	UK landlines evenings and weekends	Mobile*	USA
<b>BT**</b>	<b>0p</b>	<b>8.0p</b>	<b>1.25p</b>
Dixon's**	0p	10.0p	2p
Skype	1.4p	16.5p	1.4p
Tesco	2p	10p	2p
Vonage**	0p	10p	2p
Wanadoo**	0p	10p	4p

\* Evening rates calling Vodafone  
 \*\* Monthly fee payable





# Consumer - household ARPU\* stabilising

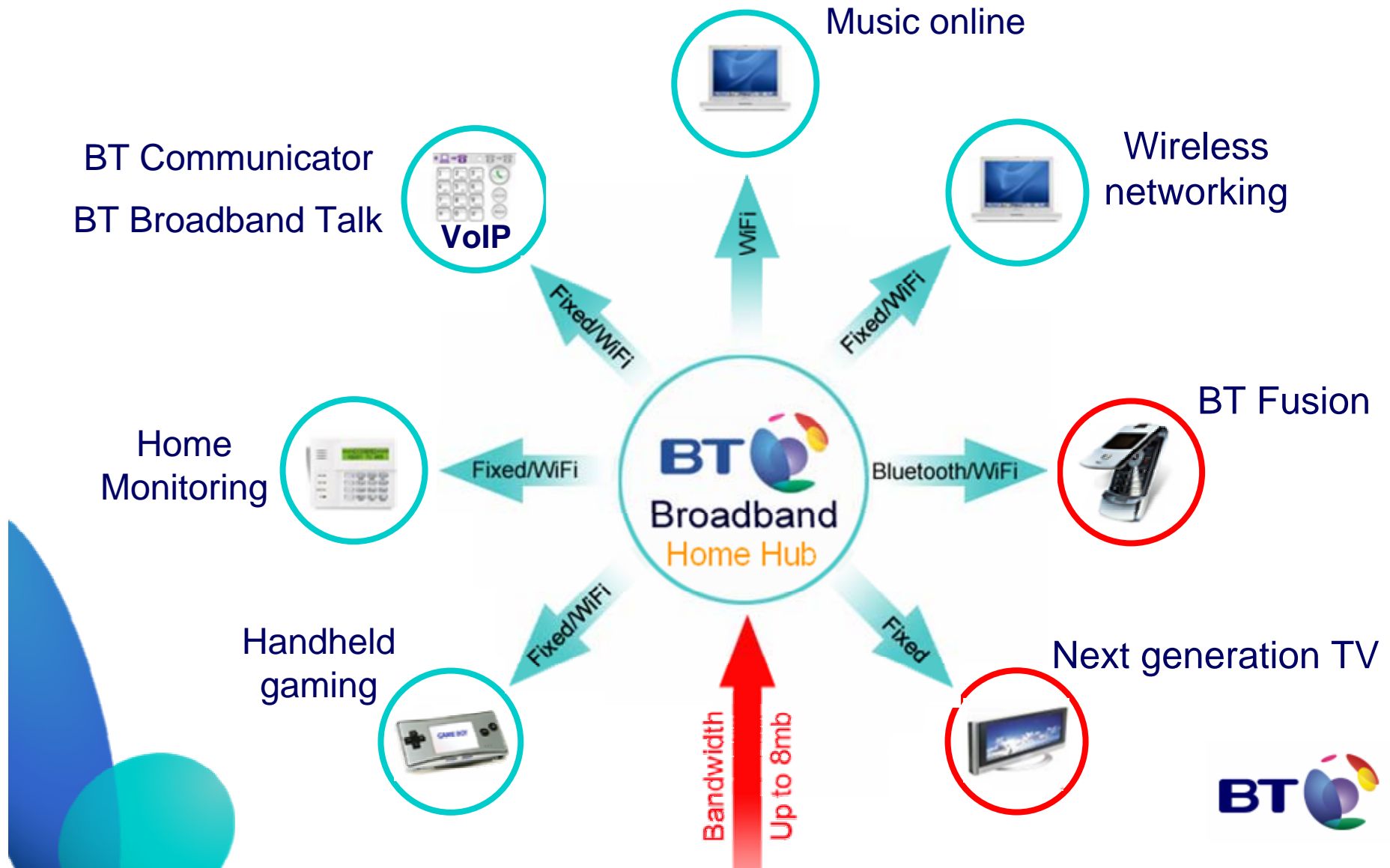


\* Rolling 12 month consumer revenue, less mobile POLOs, divided by average number of primary lines



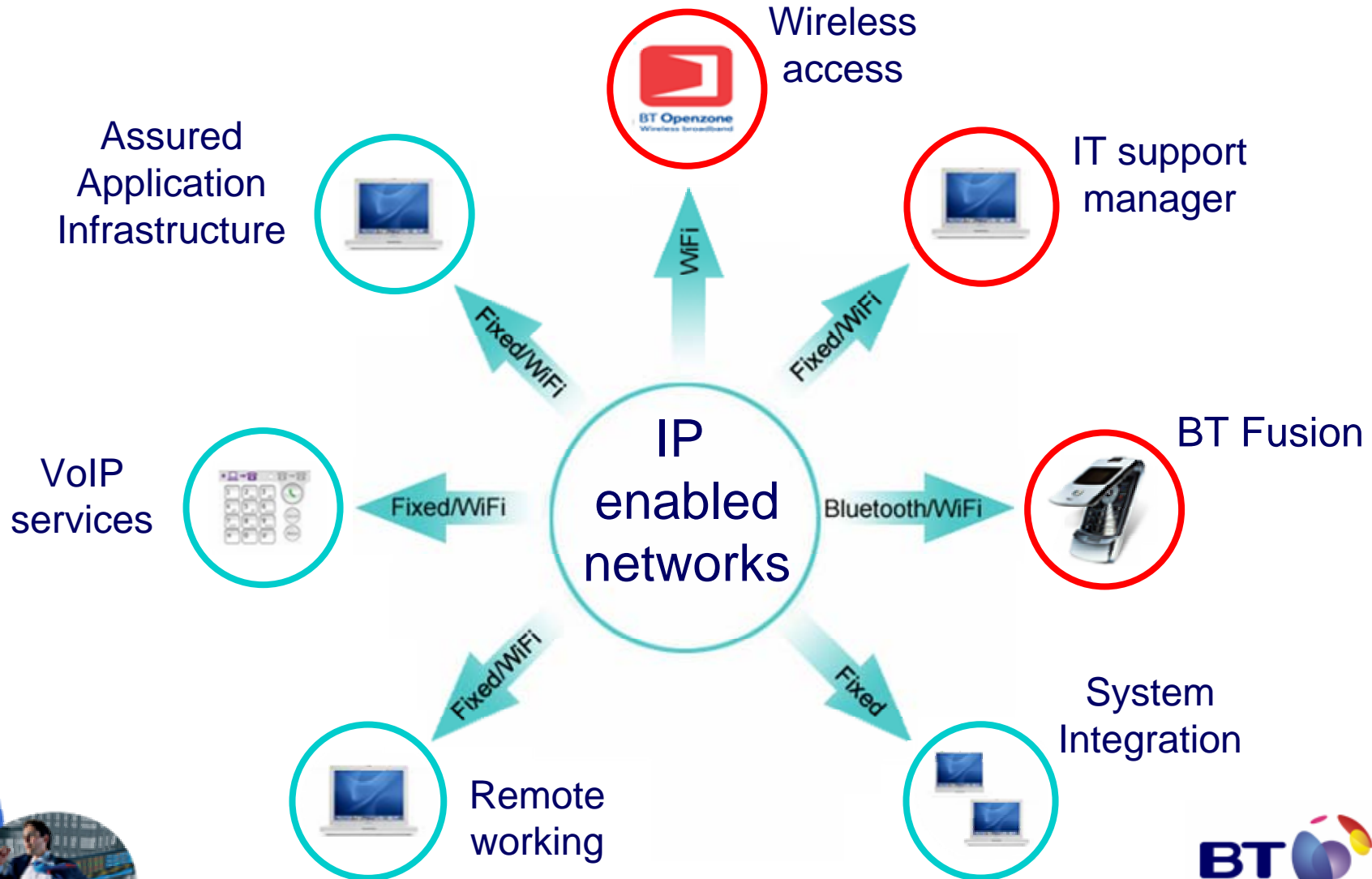
# Consumer

- unlocking the power of convergence



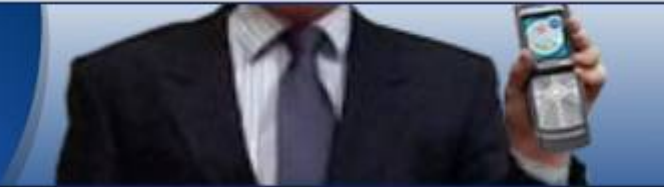
# Business

- unlocking the power of convergence



# Business – BT Fusion

Introducing BT Fusion -  
a special mobile service  
for your business.



It's a mobile phone  
outside the office



Use it in the office and it  
could save you money



50% off UK\* calls made from the  
office anytime, any network.

BT Fusion

\* £6.25 per handset for the first three months of 24 month contract, £12.50 there after

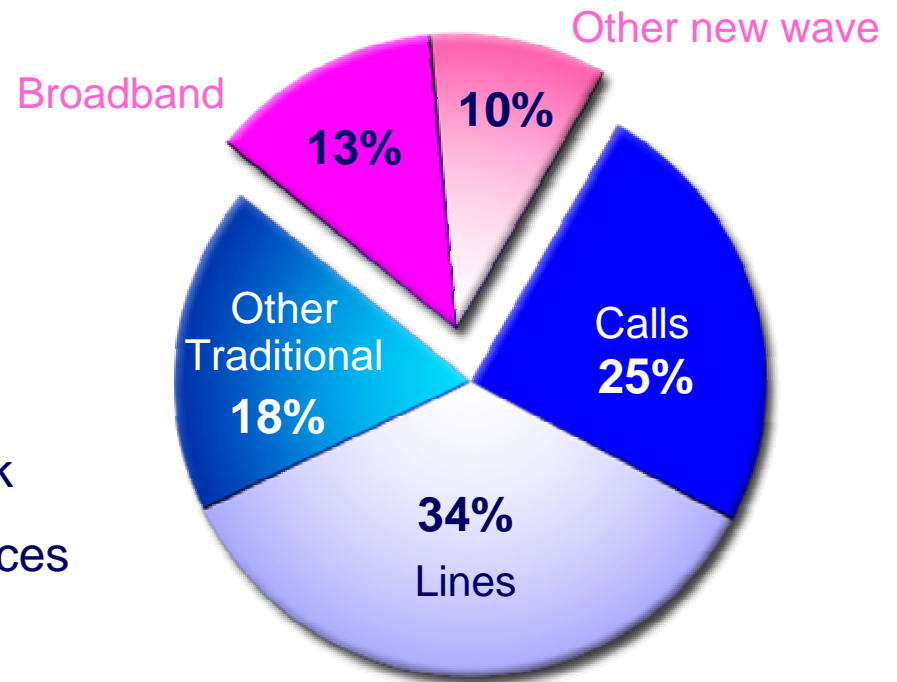


# Business

Accounts for 12% of our revenues

- new wave grew 14%
- Voice
  - BT Business Plan sites up 24%
    - >50% of call revenues
- Broadband
  - **32k** net additions in Q3, base 428k
  - attachment rate of value add services over 100%

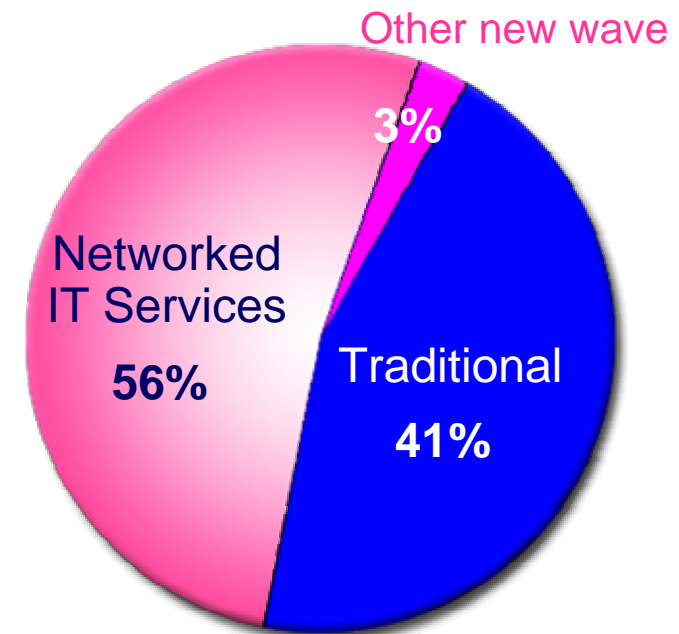
**Q3 2005/6**  
Revenue **£0.6bn**



# Corporates

- Accounts for 35% of our revenues
  - 59% is new wave
  - MPLS revenues up 35%
- Customer base across a spectrum of markets
  - International reach extended
    - **Added >250** new customers in Q3
    - MPLS available in 90 countries
  - Rolling 12 month intake **£8.1bn\***

**Q3 2005/6**  
Revenue **£1.8bn**



\* Sales Order Value of networked IT services contracts



# Corporates - Q3 order intake\*

## Wins worth £1.2bn

- Wins between £200m and £500m
  - Department for Work and Pensions
  - Fiat
- Wins between £20m and £50m
  - Microsoft
  - MyTravel
- Wins between £10m and £20m
  - Citigroup (Germany)
  - Comet



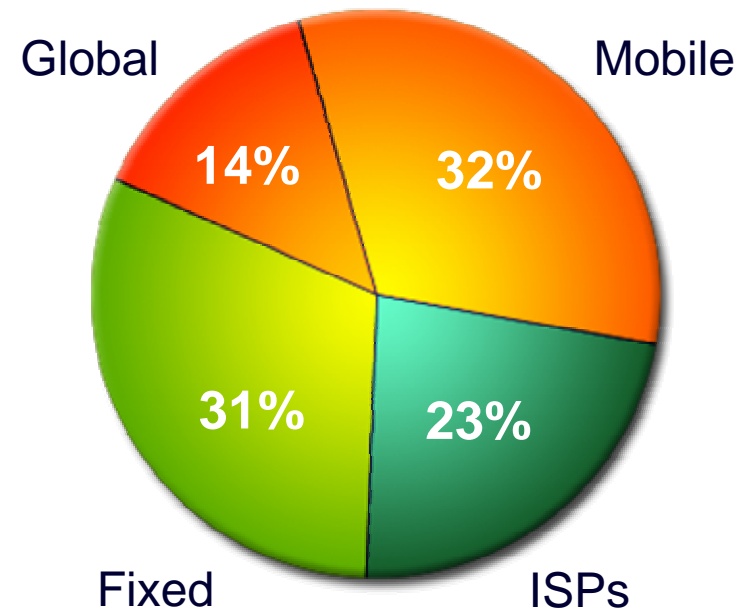
\* Sales Order Value of networked IT services contracts



# Carrier

- Accounts for 26% of our revenues
  - UK new wave rose 47%
- Fixed Operators
  - WLR, 2.3m, net adds 451k
  - CPS, 5.8m, net adds 225k
- Mobile Operators
  - no termination rate cuts in Q3
- Global Carrier
  - revenue up 2%\*
- Broadband Providers
  - continued strong volume growth

**Q3 2005/6**  
Revenue **£1.3bn**



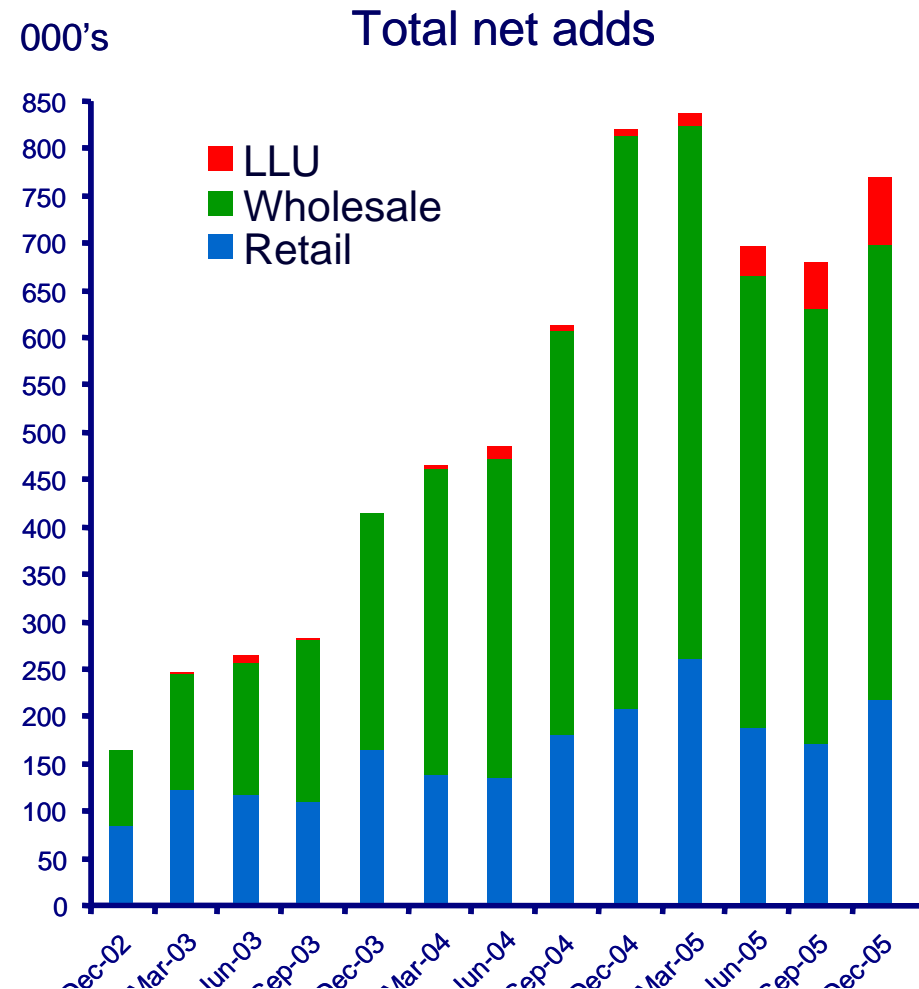
\* Excluding Albacom





# Carrier - Broadband providers

- Total DSL connections 6.9m
  - **700k** net additions in Q3
- Total LLU lines, 192k
  - 70k net additions in Q3
- BT Retail share of net adds
  - DSL, **31%**, 4% higher than Q2
  - DSL & LLU **28%**, up 3% on Q2



# Customer Service - investment and innovation



- Consumer

- 9m customer interactions completed via BT.com in last 9 months
- 2.1m customers now receive an e-Bill

- Corporate

- 3 global control centres operating 24/7
- 13,000 services and technical professionals in 140 countries



- Carrier

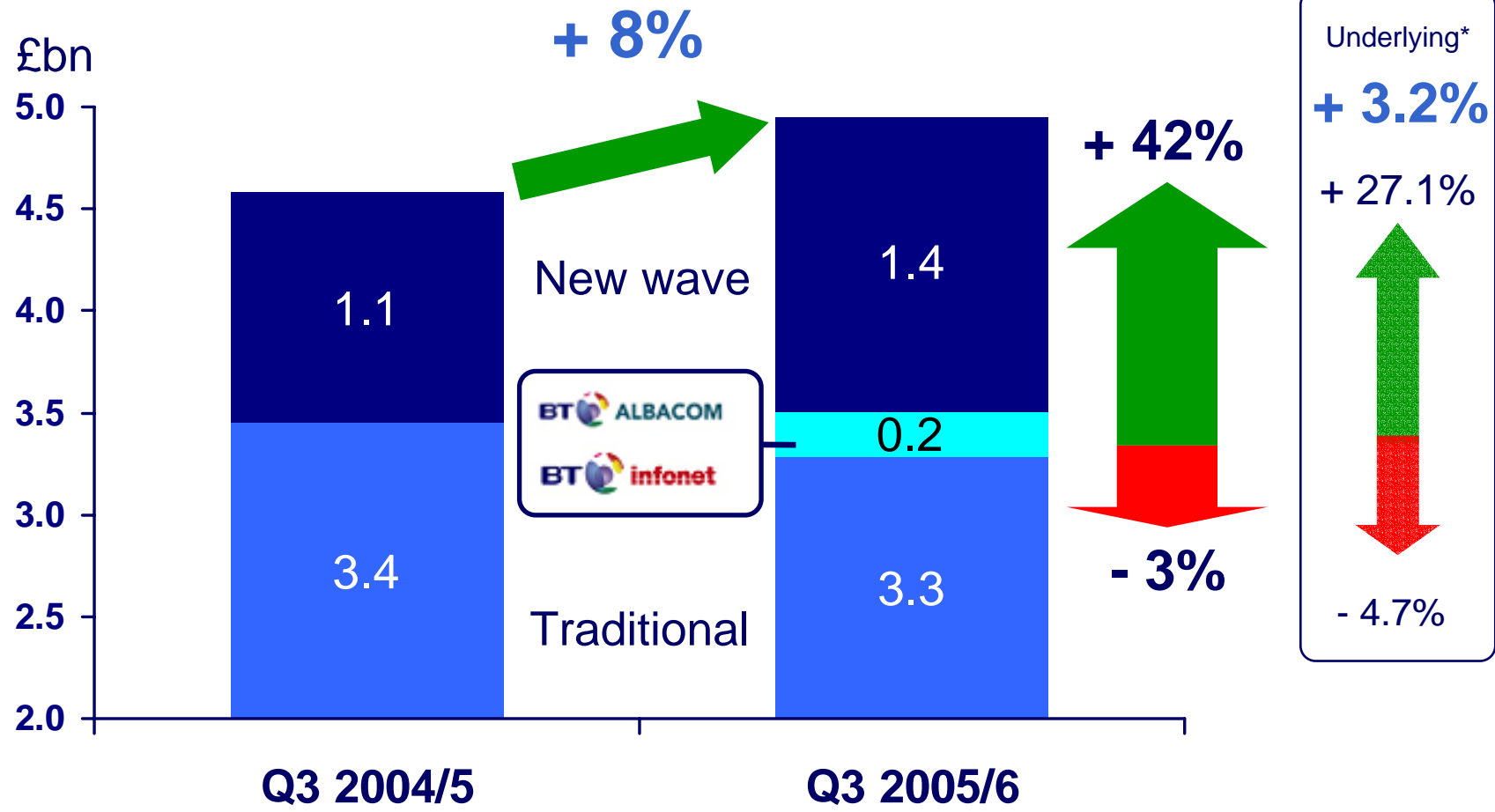
- 92% of UK transactions processed through BT Wholesale eCo system

- Business

- 3m customers interactions have been completed on BT.com YTD
- Each BT Business Plan customer has one contact number for all services



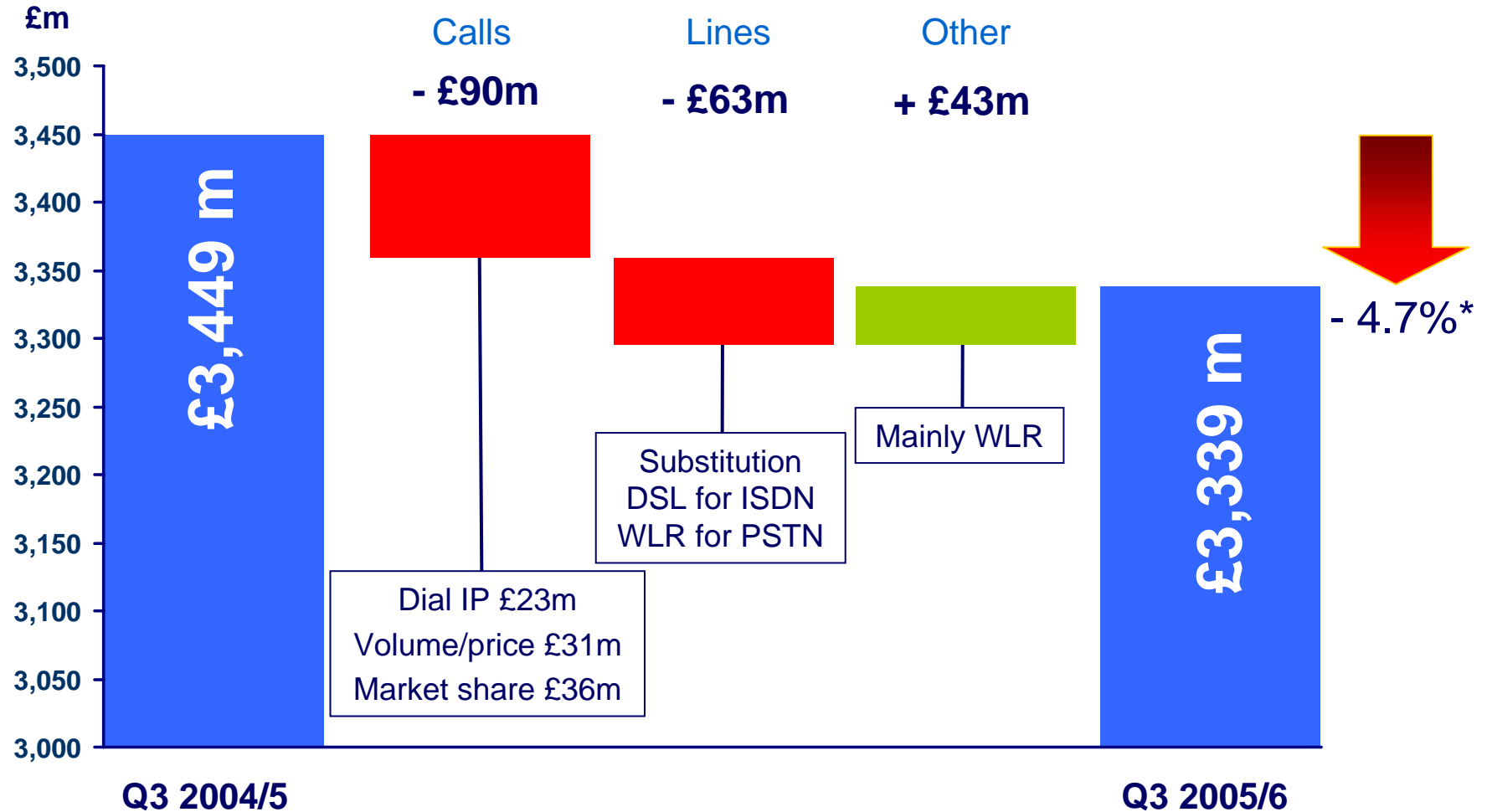
# Q3 2005/6 - Group revenue



\* Excluding Albacom & Infonet



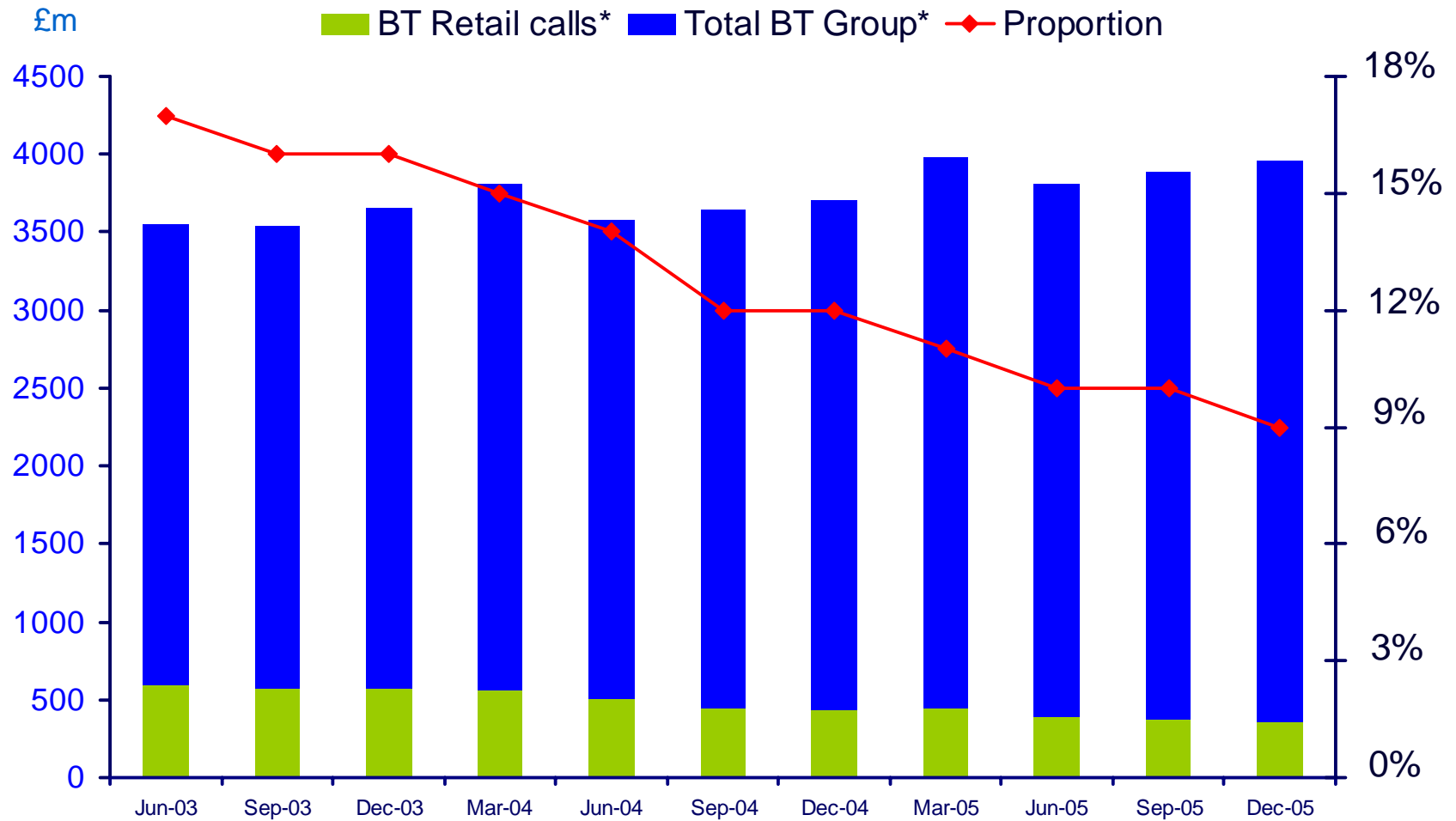
# Q3 2005/6 - Traditional\*



\* Excludes Albacom



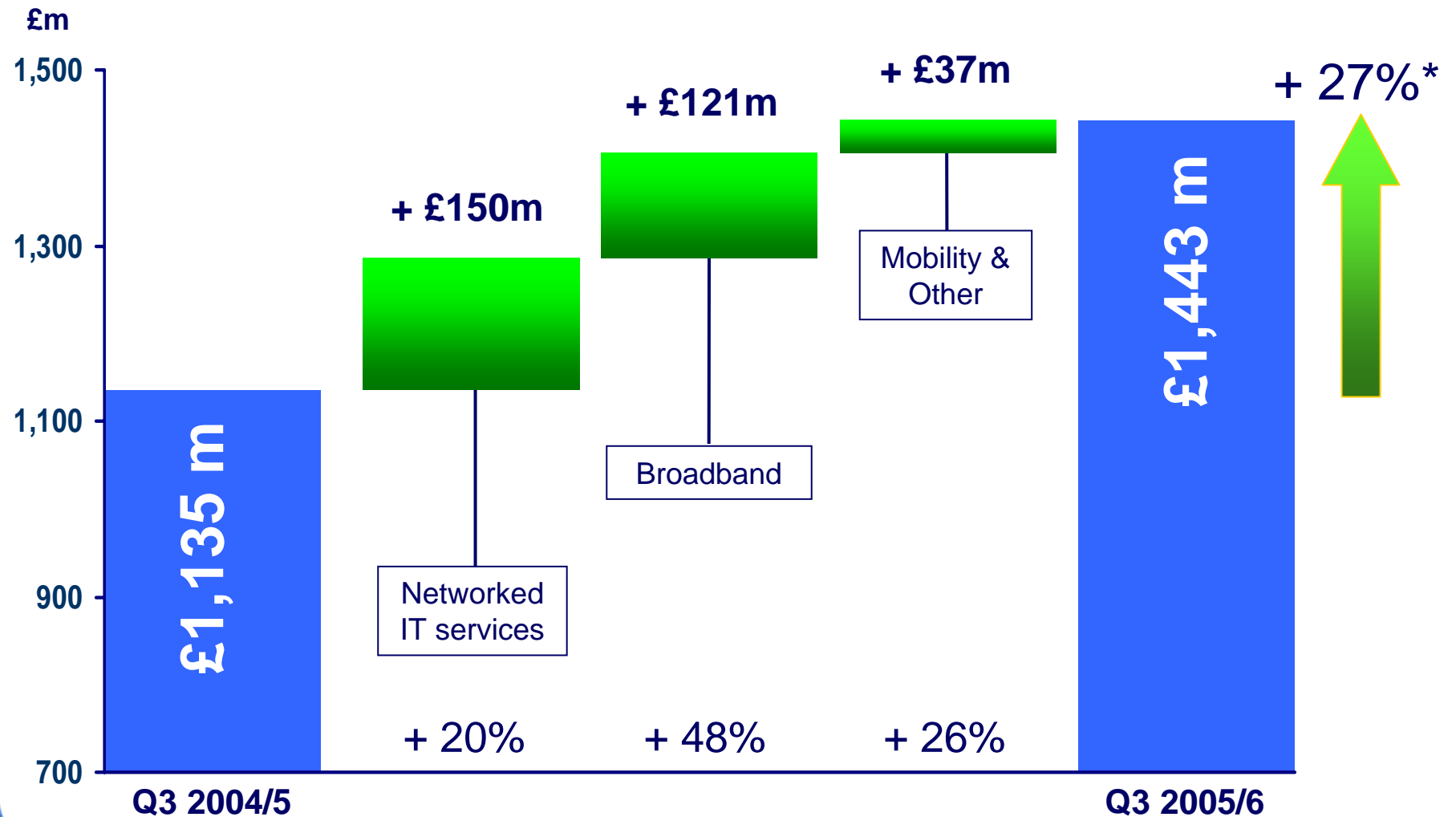
# Revenue analysis



\* Revenue less POLO payments



# Q3 2005/6 - New Wave revenue\*



\* Excludes Albacom and Infonet



# Consistent strategy driving ongoing delivery



# BT Group plc

Q3 results 2005/6

Hanif Lalani – Group Finance Director





## Q3 2005/6 - Financial headlines

Group revenue	£4.9bn	↑	8% / 3%*
EBITDA** (pre leavers)	£1.4bn	↓	0.6%
Profit before tax** (pre leavers)	£0.6bn	↑	2%
Earnings per share** (pre leavers)	5.1p	↑	4%
Free cash flow	£138m	↑	£201m***

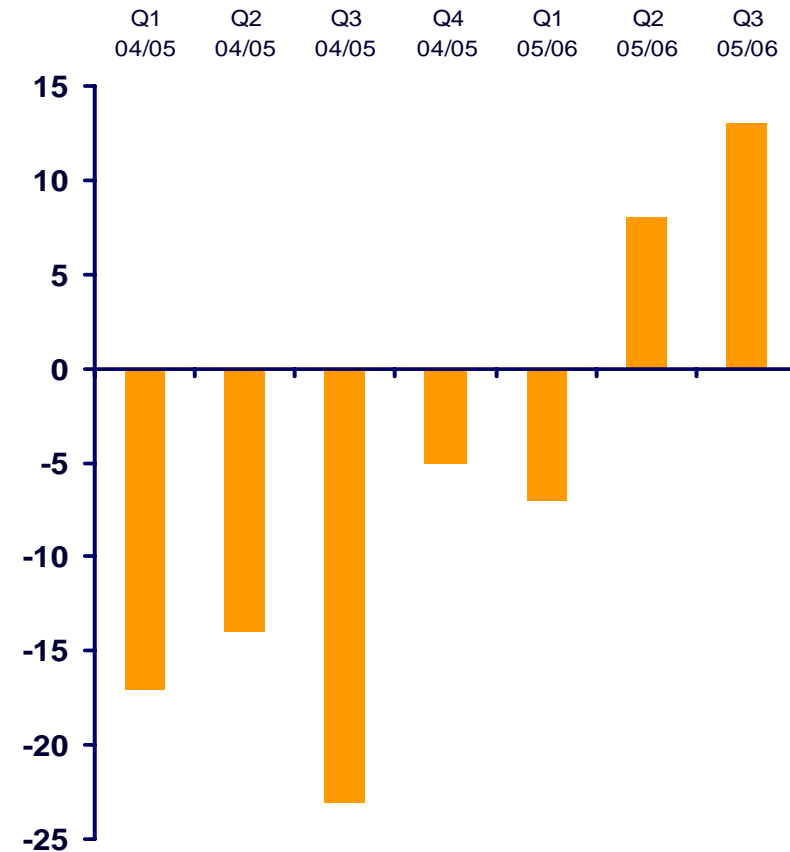
\* Underlying excluding Albacom and Infonet \*\* Before specific items  
\*\*\* Excludes disposal proceeds of £450 million mainly from the sale of Eutelsat and Starhub investments



# Q3 2005/6 - BT Retail

- Revenue £2.1bn down 3%
  - Traditional decline driven by WLR, CPS and dial IP decline
  - New wave, boosted by 40% growth in broadband
- Gross margin up 0.6 percentage points
  - Improving mix and cost control
- SG&A reduced by 7%\*
- EBITDA £207m up 13%\*
- Operating profit £171m\* up 13%

## % change in EBITDA\*

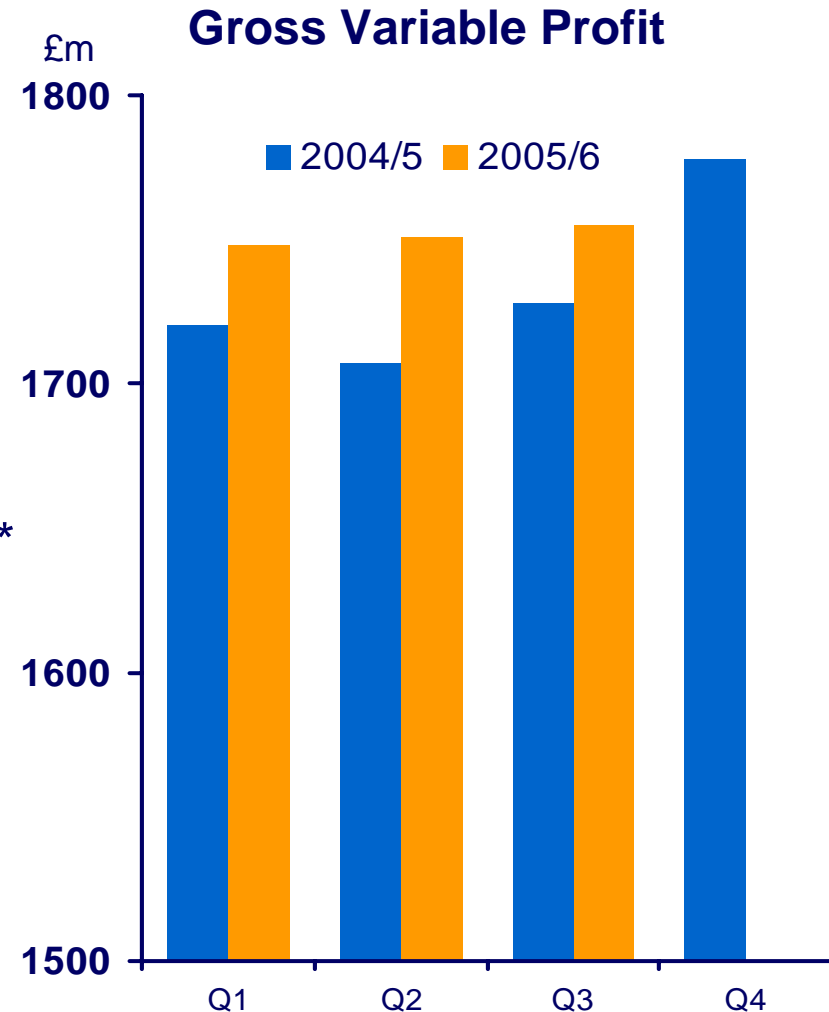


\* Before leavers and specific items



# Q3 2005/6 - BT Wholesale

- Revenue £2.3bn up 1%
  - External revenue up 12%
  - Internal revenue down 6%
- Gross variable profit £1,775m up 2%
- Network and SG&A costs rose 5%\*
- EBITDA £978m down 0.7%\*
- Operating profit maintained at £511m\*

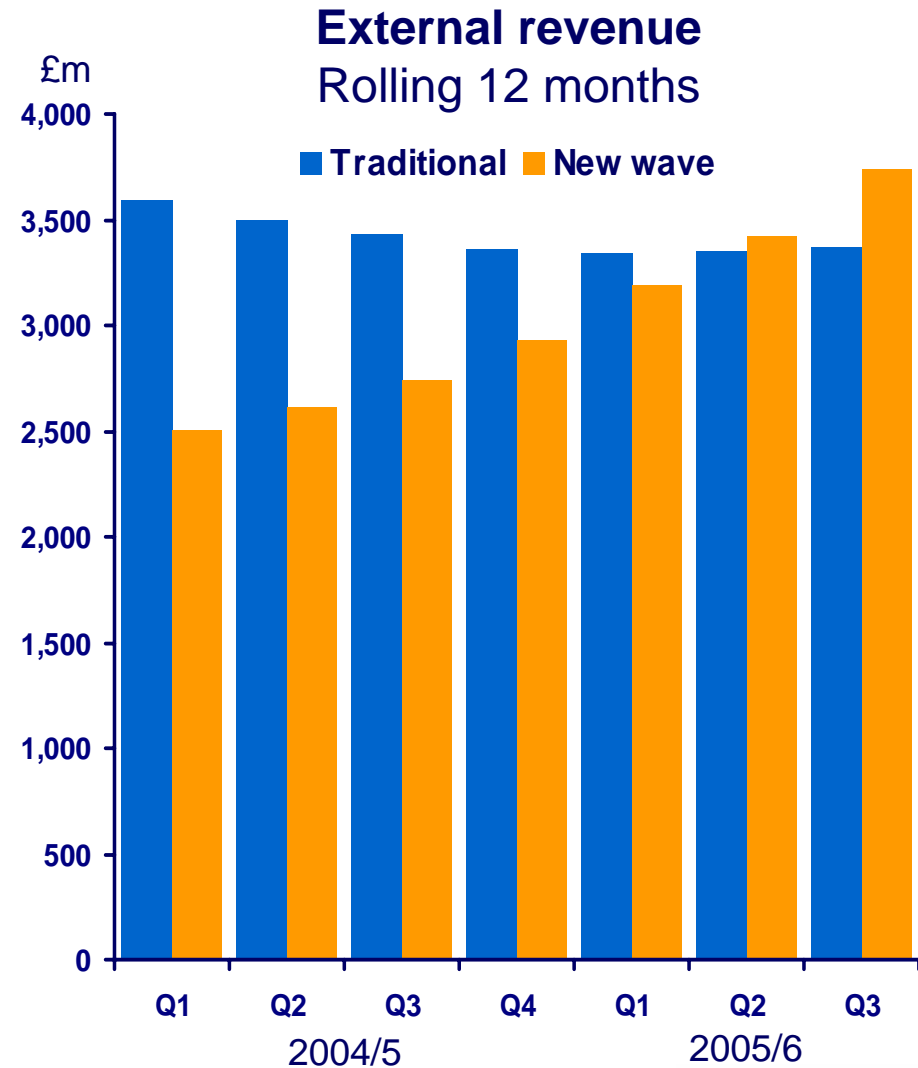


\* Before leavers and specific items



# Q3 2005/6 - BT Global Services

- Revenue £2.2bn up 20%
  - 8% excluding Albacom and Infonet
- EBITDA £246m\* up £1m
  - new wave and MPLS growth of £26m was off-set by decline in UK traditional business
- Operating profit £86m\* down 23%
  - higher depreciation



\* Before leavers and specific items



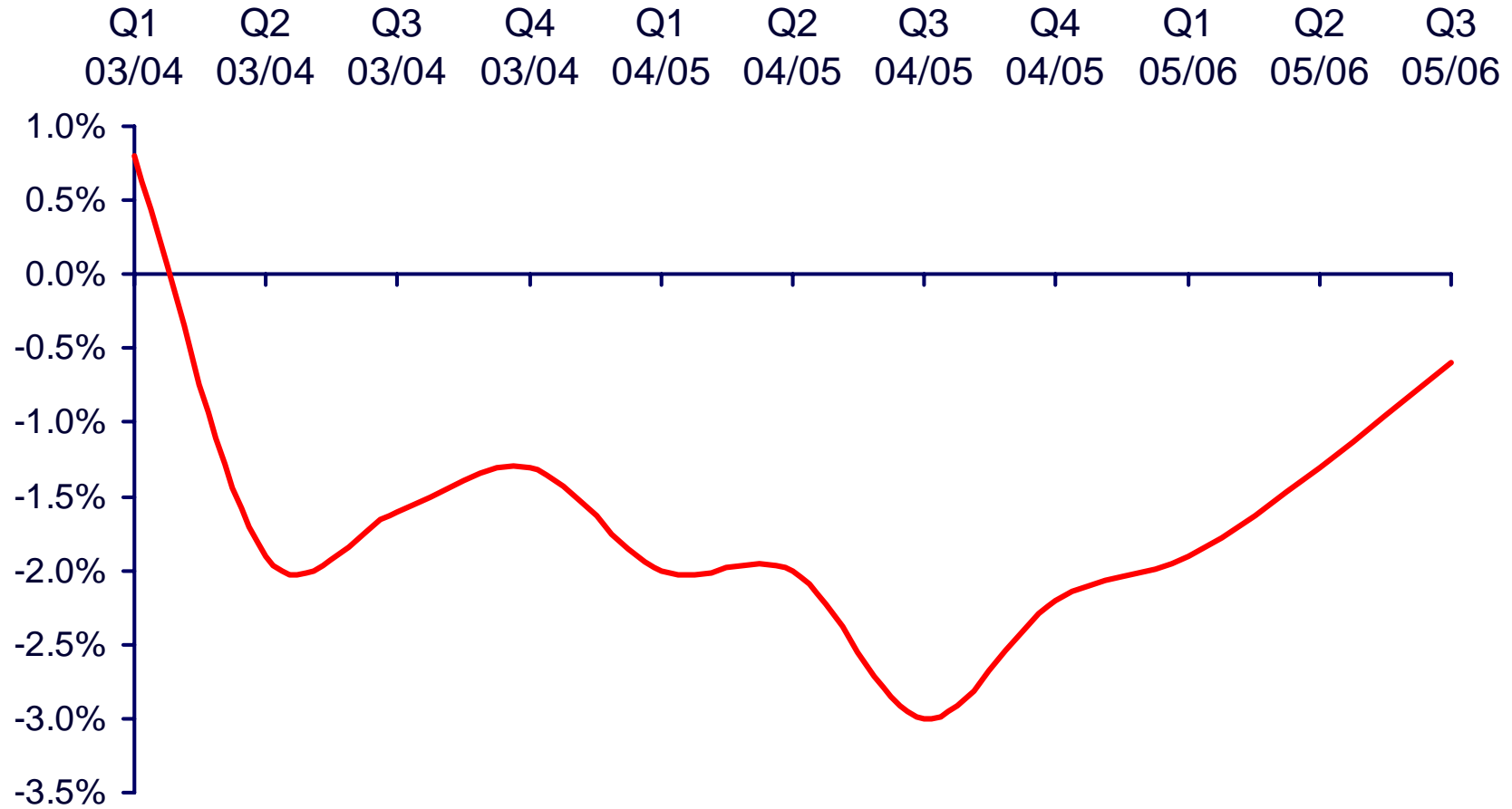
## Q3 2005/6 - Group P&L

	2005/6 £m	2004/5 £m	Better / (Worse) £m
<b>Turnover</b>	<b>4,946</b>	<b>4,584</b>	<b>362</b>
<b>EBITDA (pre leavers)</b>	<b>1,404</b>	<b>1,412</b>	<b>(8)</b>
Depreciation & amortisation	(710)	(695)	(15)
<b>Operating profit (pre leavers)</b>	<b>694</b>	<b>717</b>	<b>(23)</b>
Leaver costs	(23)	(12)	(11)
Associates	3	(10)	13
Finance costs (net)	(129)	(149)	20
<b>Profit before tax</b>	<b>545</b>	<b>546</b>	<b>(1)</b>
Tax	(134)	(140)	6
<i>Tax rate</i>	24.6%	25.6%	1.0%
<b>Profit for the period</b>	<b>411</b>	<b>406</b>	<b>5</b>
Earnings per share (pence)	4.9p	4.8p	0.1p

\* All numbers are before specific items



# EBITDA\* - year on year trend



\* Before exceptionals / specific items, leaver costs and sale of property in Q2 2004/5



# Financial discipline - cost management

Delivering > £400m of efficiency savings each year

2005/6  
and  
beyond

- *Next generation contact centres*
- *Reorganisation of finance functions*
- *OneIT global sourcing*
- *Better billing, faster collection cycles*
- *Rationalisation of global IP network*
- *Streamlining of corporate account management teams*
- *21CN and further network management efficiencies*
- *Optimising channels to market*
- *De-duplication of overhead functions*
- *More efficient procurement: marketing, agency, directories*



## Q3 2005/6 - Free cash flow

	Q3 2005/6 £m	Q3 2004/5 £m	Better / (Worse) £m
EBITDA* (post leavers)	1,381	1,400	(19)
Interest (net)	(356)	(382)	26
Tax paid	(75)	(133)	58
Capex (net of disposals)	(725)	(755)	30
Working capital and Other	(87)	(193)	106
<b>Free cash flow</b>	<b>138</b>	<b>(63)</b>	<b>201</b>
Disposals**	---	450	(450)
<b>Free cash flow</b>	<b>138</b>	<b>387</b>	<b>(249)</b>

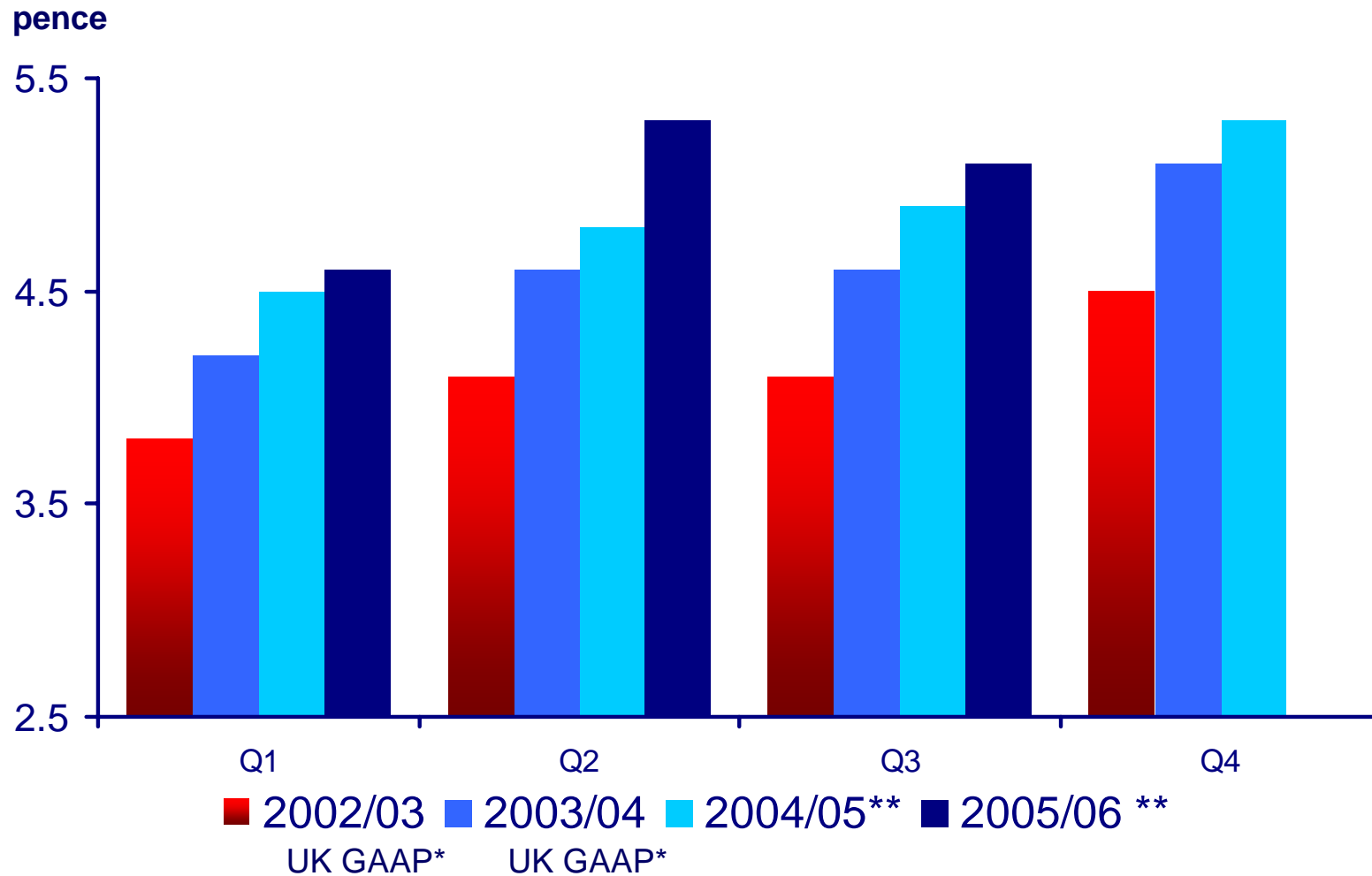
\* Before specific items

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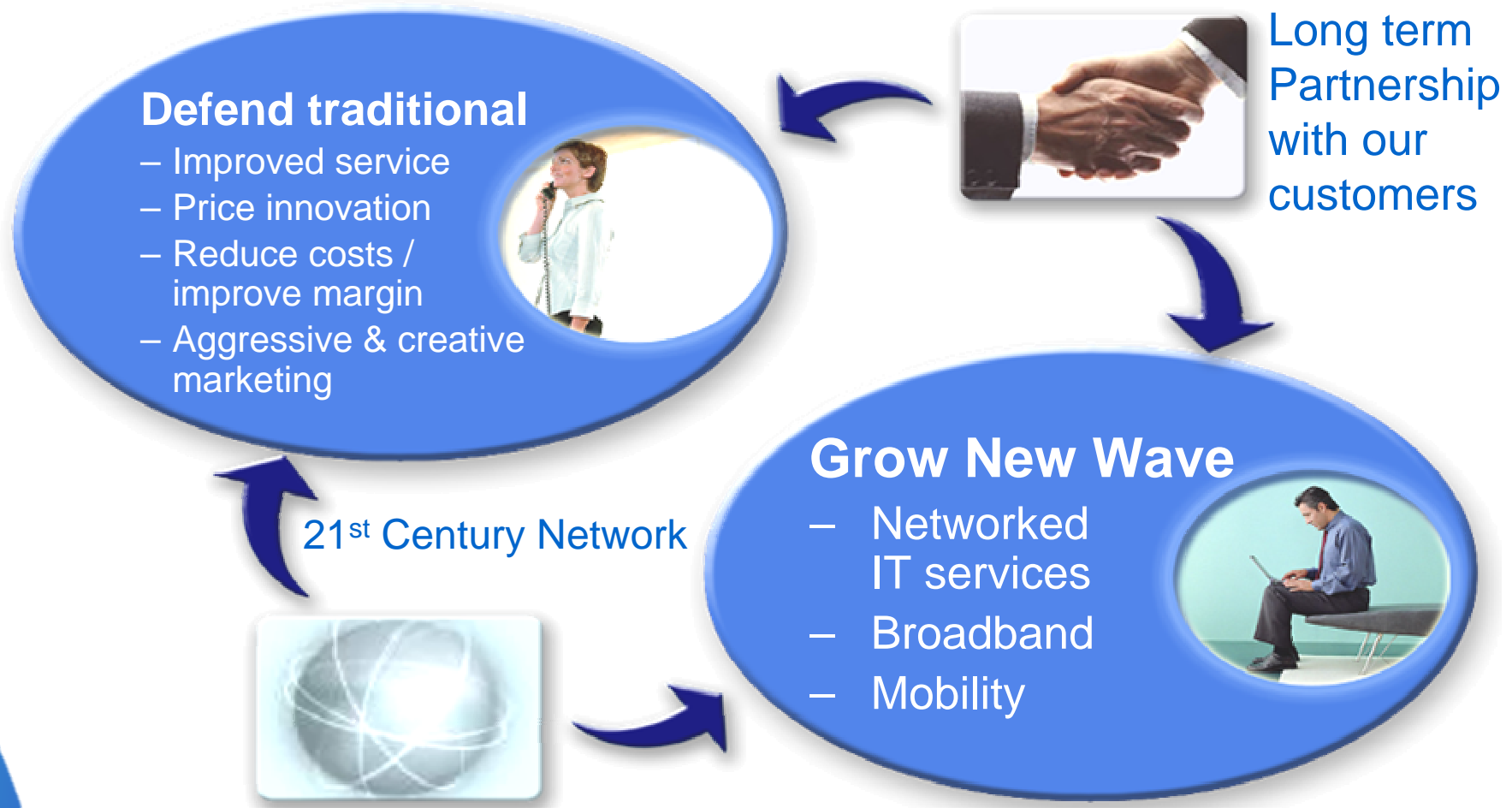
# Underlying earnings per share\*



\* Before exceptionals and leaver costs  
\*\* Before specific items and leaver costs



# Consistent strategy



... *Consistent delivery*



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Q3 results 2005/6

