

BT Group plc

Q2 2008/9 Results
13 November 2008





BT Group plc

Ian Livingston



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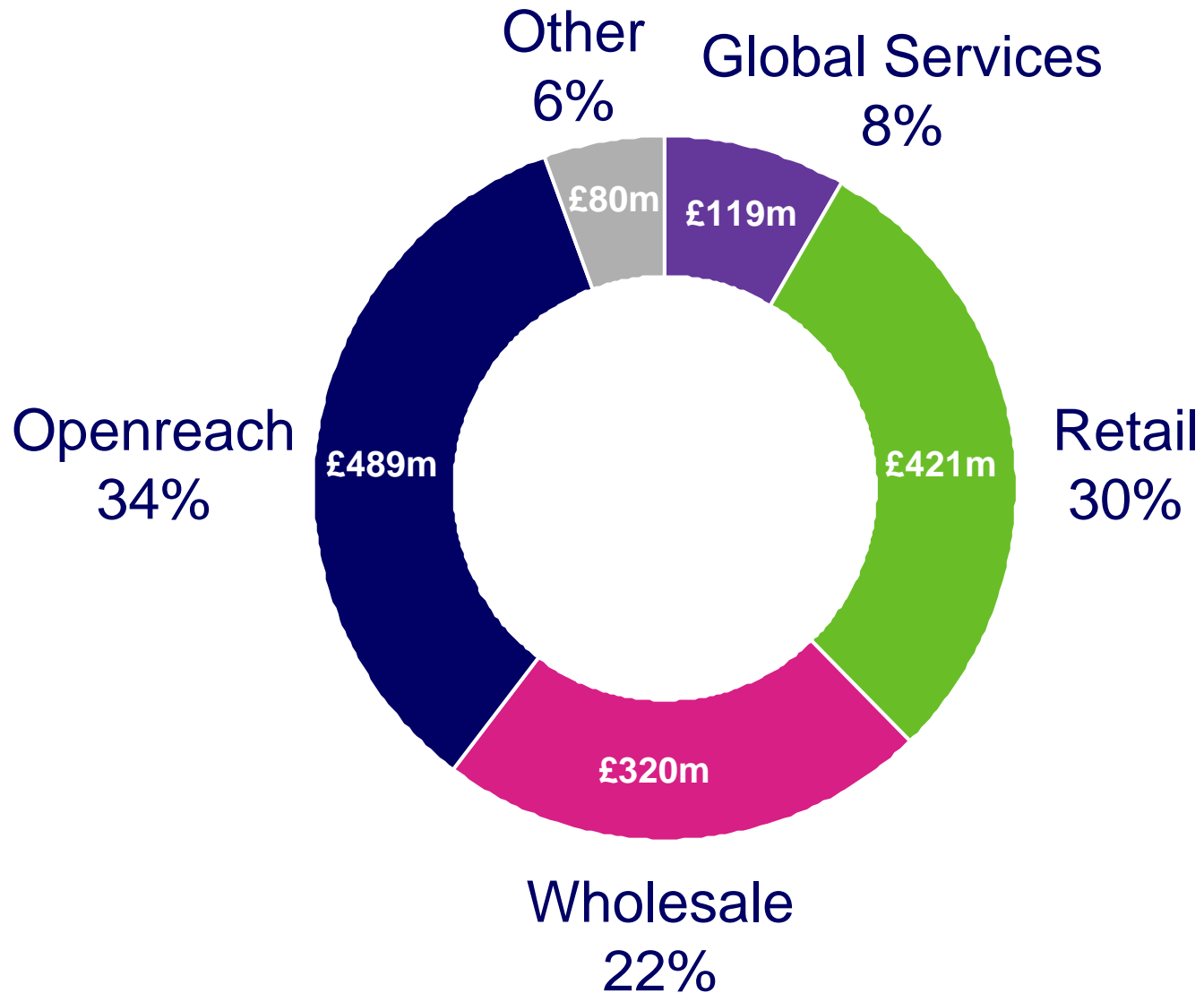
Q2 2008/9 group results

Revenue	£5,303m	4%	
EBITDA*	£1,429m	1%	
Operating profit*	£744m	1%	
Earnings per share*	5.9p	3%	
Free cash flow	£369m	up £198m	
Interim dividend	5.4p		




* before specific items and leaver costs



Q2 2008/9 EBITDA by line of business



Q2 2008/9 line of business summary results

	Global Services	Retail	Wholesale	Openreach
Revenue	 15%	 0%	 7%	 0%
EBITDA	 36%	 9%	 12%	 4%

Q2 2008/9 line of business overview

Global Services

- ▶ Good market position
- ▶ High service levels
- ▶ Good sales growth in quarter
- ▶ Strong order pipeline

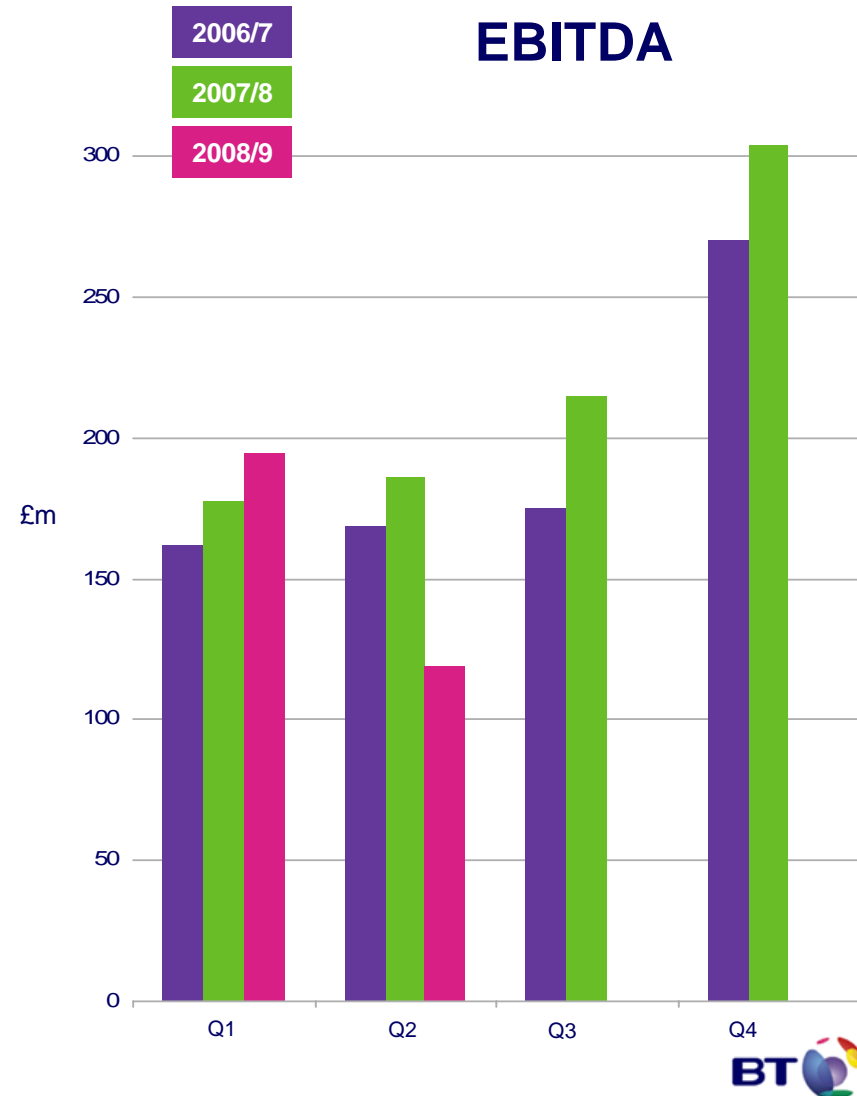
BUT

- ▶ Failure to deliver cost efficiency programmes
 - slower than anticipated delivery of planned savings
 - no material productivity improvements on major contracts recognised in quarter
- ▶ Decline in higher margin UK revenue
- ▶ FX reduced EBITDA by £11m

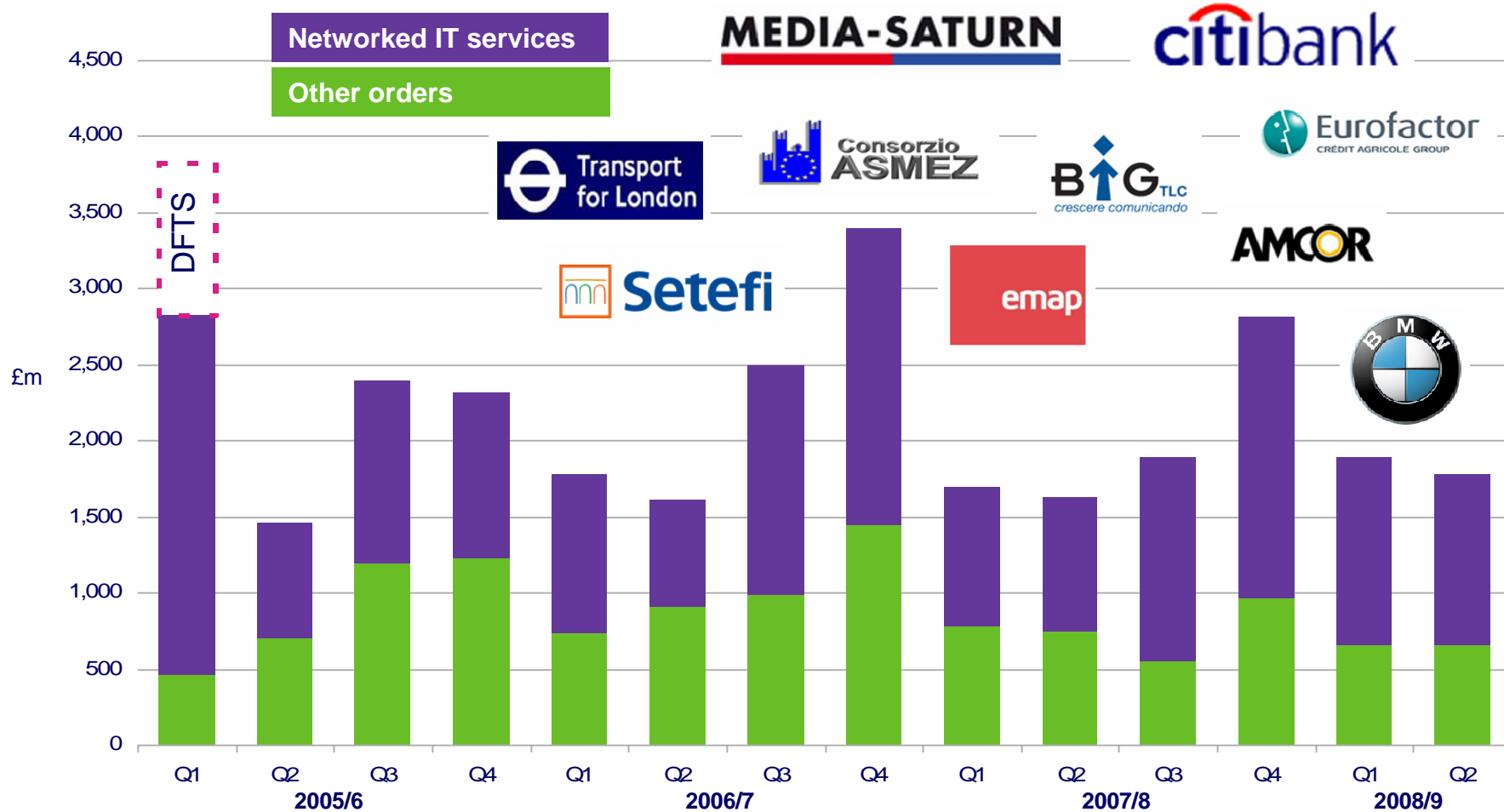
Q2 2008/9 line of business overview

Global Services

- ▶ Revenue £2.2bn up 15%
 - 5% growth ex FX and acquisitions
 - non-UK revenue up 30%
 - MPLS revenue up 44%
- ▶ EBITDA £119m down 36%
 - EBITDA margin 5.5%
 - unacceptable performance



Global Services - £1.8bn order intake in Q2



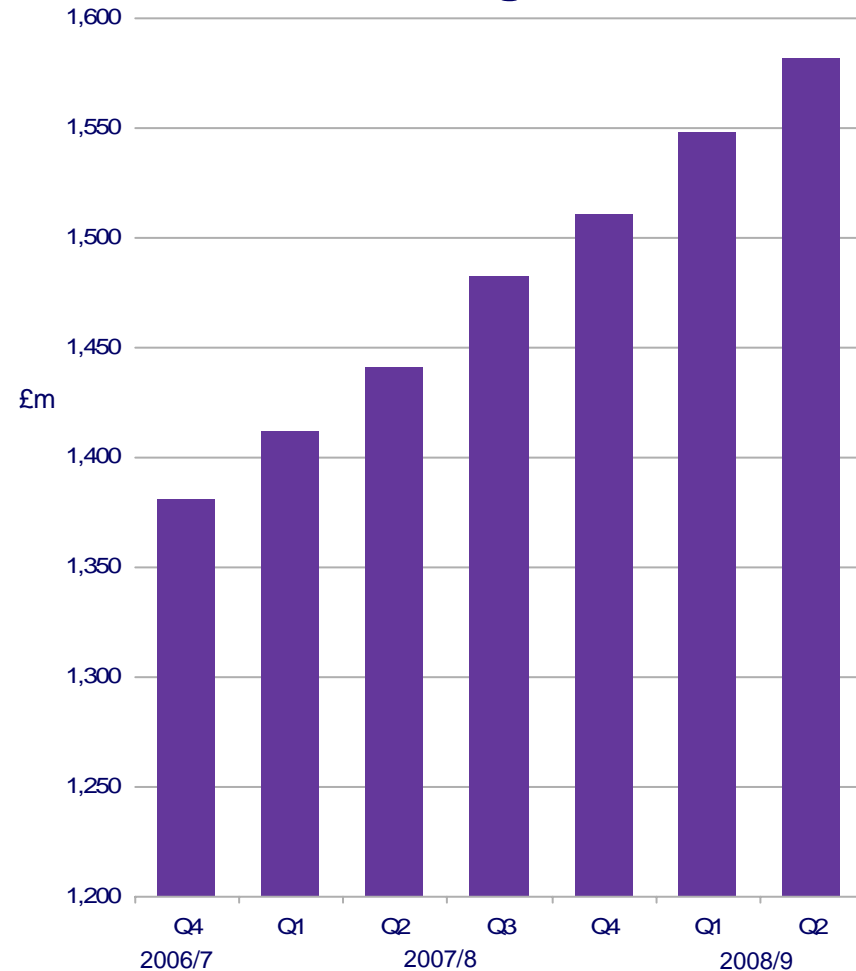
Rolling 12 months order intake £8.4bn

Q2 2008/9 line of business overview

Retail

- ▶ Revenue £2.1bn maintained
 - broadband up 12%
 - 69,000 net adds, 27% share*
 - 4.6m installed base, 34% share*
 - NITS revenue up 25%
- ▶ Gross margin up 190 b.p.
 - improved product mix
 - cost of sales efficiencies
- ▶ EBITDA £421m up 9%

12m rolling EBITDA



* DSL & LLU

Q2 2008/9 line of business overview

Retail

- ▶ Consumer down 3%
 - ARPU* up £5 to £283
 - increased take up of Option 2 & 3 call packages
 - currently c.340,000 Vision customers
 - BT Basic launched helping low income households
 - new Mobile Saver launched
- ▶ Business up 2%
 - mobile business broadband launched
 - combines 3G, wi-fi and fixed-line
 - 10m Openzone minutes per week in September
 - Tradespace customers grew to c.250,000



* ARPU = average annual revenue per consumer household

Q2 2008/9 line of business overview

BT
Conferencing



- ▶ Revenue* £62m, up 78% in Q2
- ▶ EBITDA* margin 30%
- ▶ Used by more than half the Fortune 100
- ▶ No.1 video conferencing provider* in the world
- ▶ Building customer base
- ▶ Helps companies cut costs and reduce CO₂ emissions



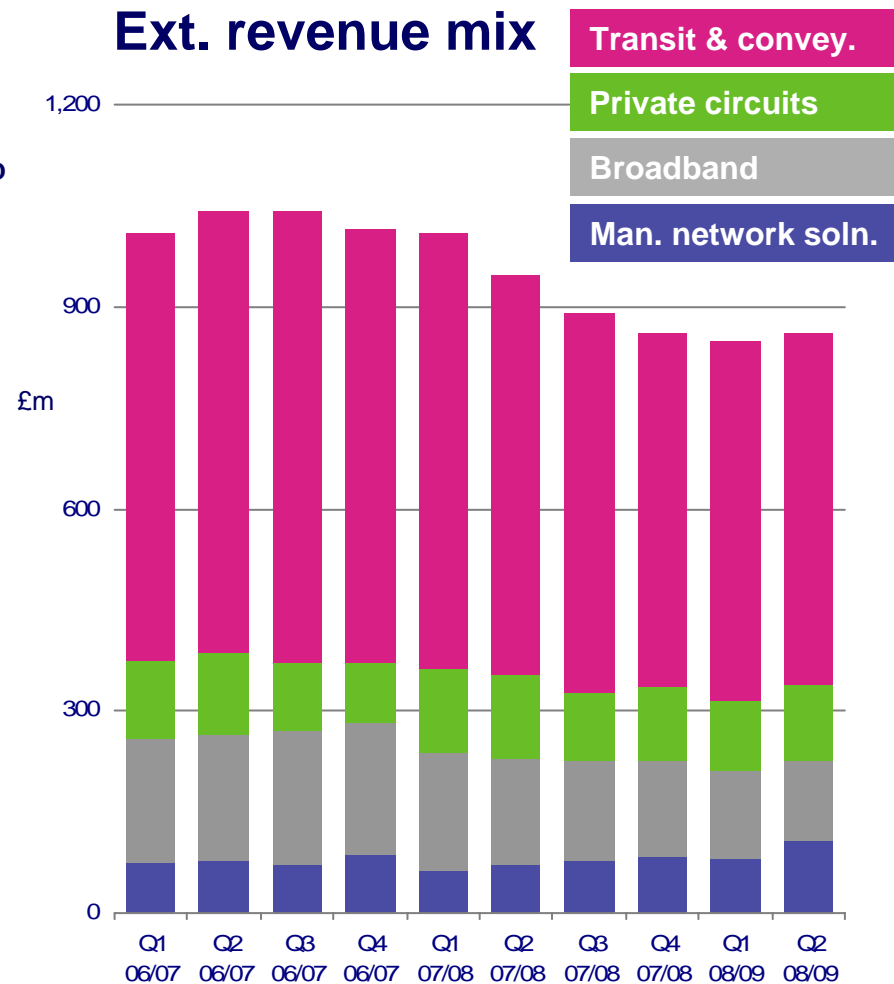
Highly profitable global business

* Includes Wire One acquisition

Q2 2008/9 line of business overview

Wholesale

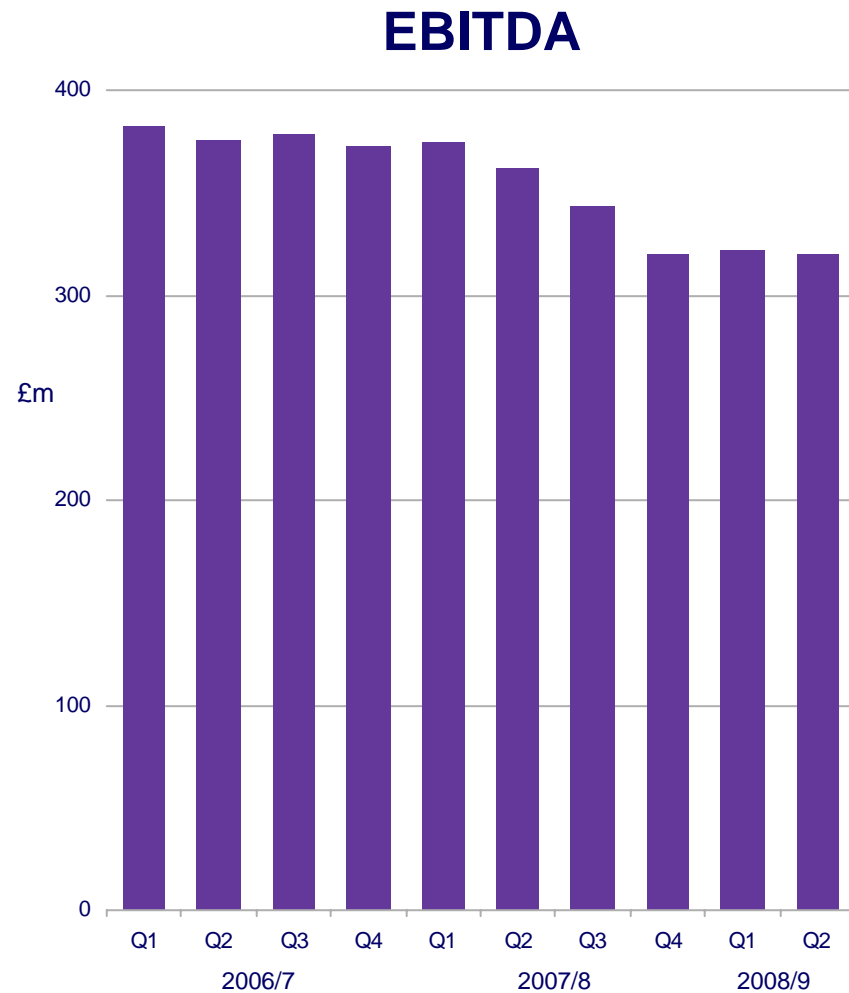
- ▶ Revenue £1.2bn down 7%
 - managed network solutions up 50%
 - transit & conveyance down 15%
 - private circuits down 10%
 - broadband down 25%
- ▶ Around a third of full year revenue under fixed term contracts
- ▶ Managed network services contract win
 - T-mobile and 3 UK
- ▶ 3.4m end user customers on white label platforms



Q2 2008/9 line of business overview

Wholesale

- ▶ EBITDA £320m down 12%, trend stabilising
- ▶ 11% reduction in SG&A
 - customer service efficiencies and productivity improvements
- ▶ Focus on 'right first time' helping eliminate costs

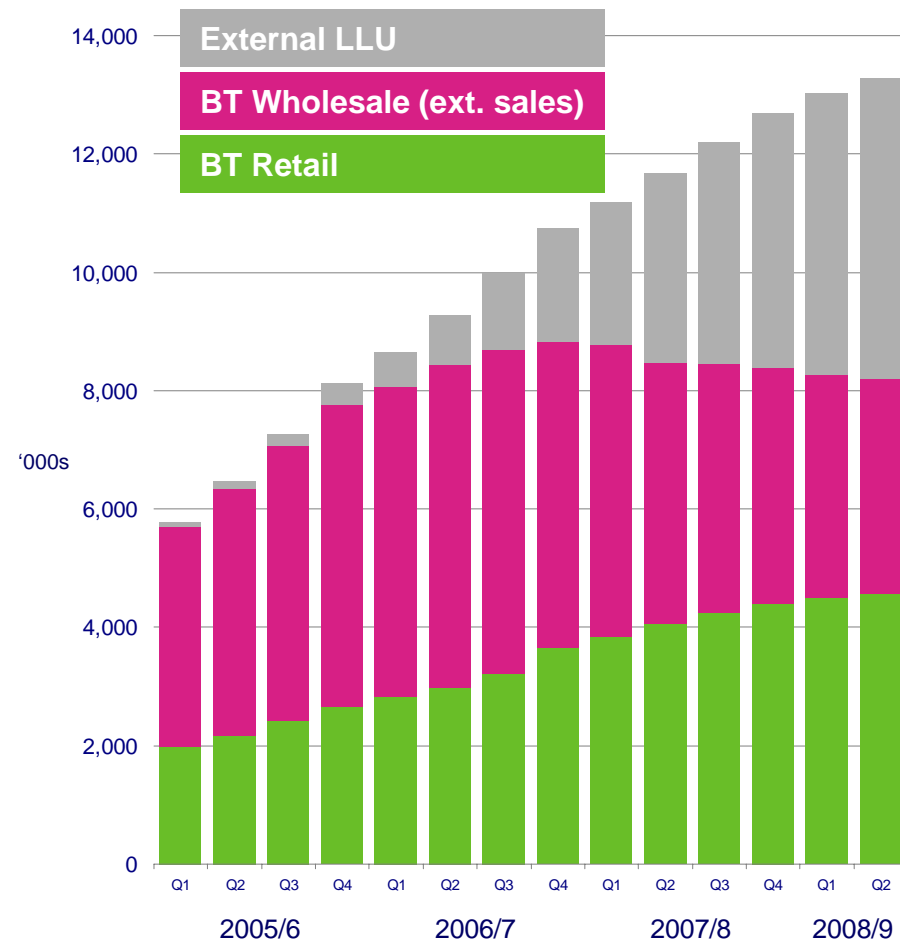


Q2 2008/9 line of business overview

Openreach

- ▶ Revenue £1.3bn maintained
 - external up 14%
 - internal down 3%
- ▶ Operating costs down 3%
 - significant investment leading to efficiency improvements
 - 140,000 fewer repair visits
 - access faults down 21%
- ▶ EBITDA £489m up 4%

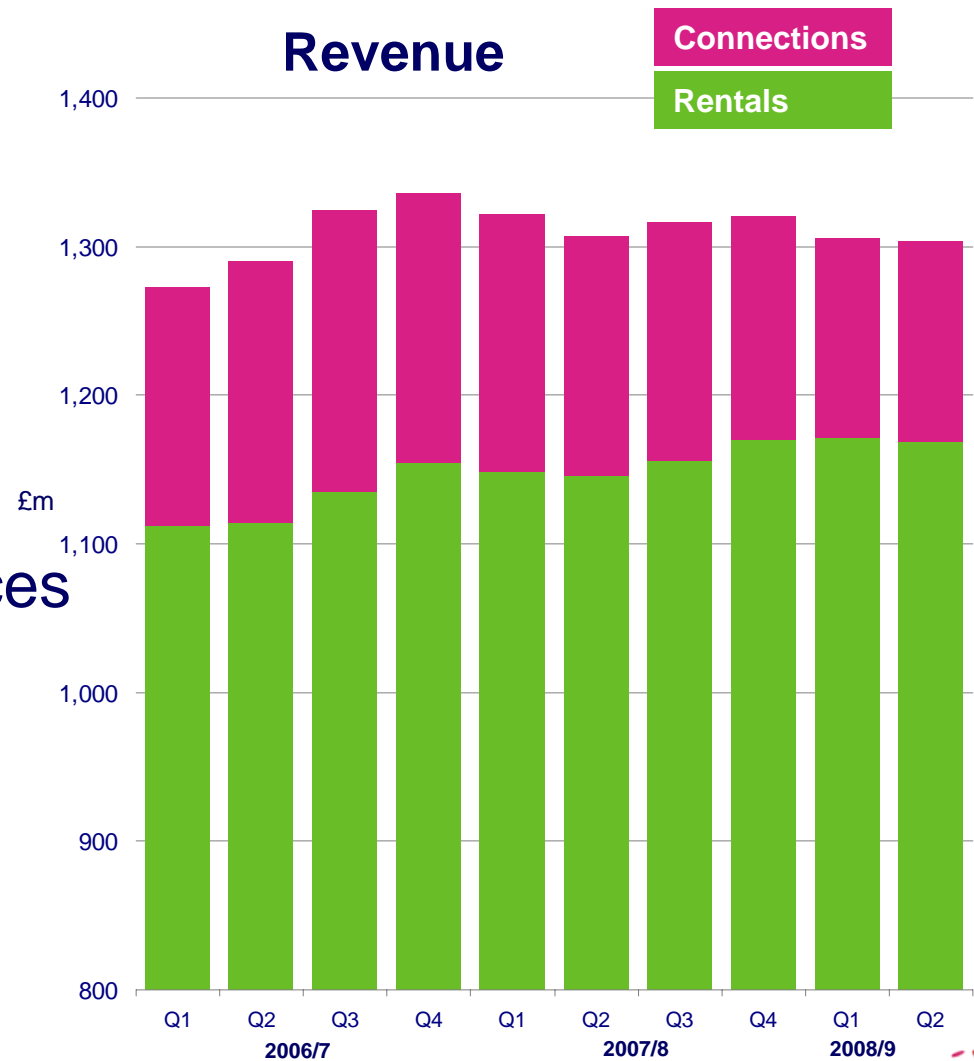
ADSL broadband



Q2 2008/9 line of business overview

Openreach

- ▶ LLU/WLR combined net adds slowing
 - reduced housing starts impacting connections
 - slowing PoP roll out
- ▶ Rental stable
- ▶ Potential from new services
- ▶ Future price changes
 - Ethernet
 - FFR



Global platforms

21CN

- ▶ Up to 24Mbit/s available to 40% of UK by April 2009
 - eight CPs placing orders
- ▶ Next generation Ethernet 110 nodes complete
 - on target for c.600 by April 2009
 - significant orders received

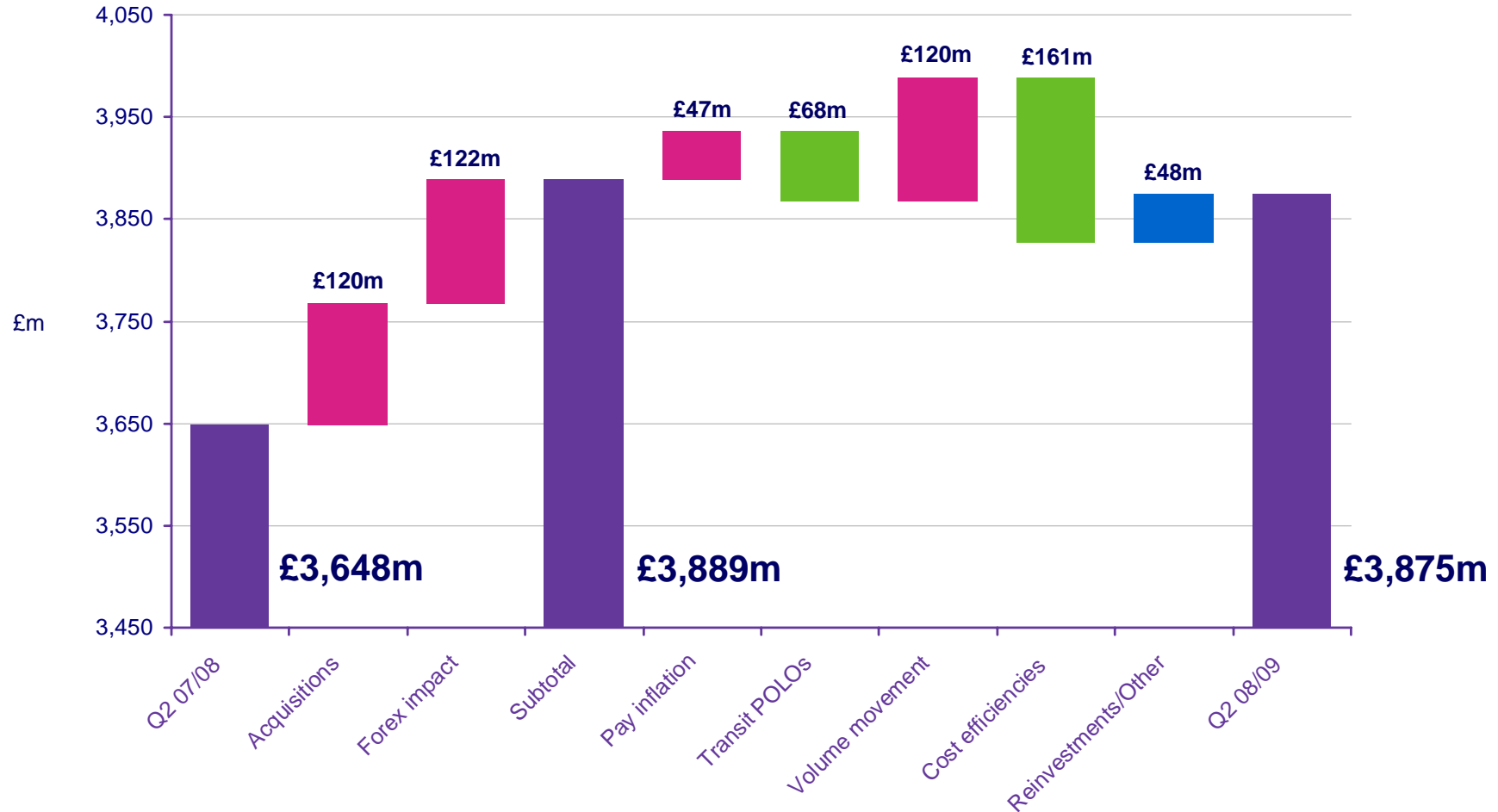
Superfast broadband

- ▶ FTTP – live in Ebbsfleet
 - up to 100Mbit/s downstream
- ▶ FTTC – pilot sites announced
 - Muswell Hill and South Glamorgan
 - trial to c.30,000 premises
- ▶ Ofcom engaged
 - consultation document on NGA published

MPLS

- ▶ 1,282 PoPs in over 170 countries
- ▶ 5,200 new MPLS connections per month
 - up 68%

Q2 2008/9 movement in cost base*



Q2 cost efficiencies £161m

* before specific items, leaver costs, depreciation and amortisation, net of other operating income



Cost saving initiatives examples

- ▶ Global Services network optimisation
 - 7 year contract with Alcatel-Lucent to manage non-UK legacy networks
 - savings of c.£100m expected over contract term

- ▶ Carrier market plan
 - designed to meet carrier customers' needs worldwide
 - leveraging account relationships
 - reduces cost of addressing the marketplace
 - saves c.120 FTE positions

- ▶ Overhead value analysis
 - standard methodology used in Retail to identify duplication, process inefficiency and non value add activities
 - has driven significant labour resource reductions
 - e.g. HR 28%, billing 24%, payphones 22%

Cost saving initiatives total labour resource (TLR)

Direct labour*

c.110,000

Indirect labour* (agency, contractors, offshore)

c.50,000

TLR*

c.160,000

▶ c.10,000 TLR reduction this year

▶ Actions

- redeployment and retraining
- replacing contractors and agencies with redeployees
- helps control leaver costs
- stronger performance management
- tight control on external hires

* As at end 2007/8 financial year



Customer service

Year on year improvements in Right First Time programme:

- ▶ Business broadband repair
 - dissatisfaction reduced by half
- ▶ Abandoned calls reduced from 11% to 4%
- ▶ Repair lead times down by 1/4
- ▶ Provision lead times down by 1/5



Dividend

Interim dividend

5.4p 

Ex dividend date

24 December 2008

Record date

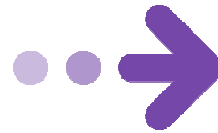
30 December 2008

Payment date

9 February 2009

2008/9 outlook

Global Services



FY EBITDA margin 7- 8%

Retail



Continued EBITDA growth

Wholesale



Q3 similar to Q2, improving trend in Q4

Openreach



Stable performance

Revenue expected to grow, small decline in EBITDA* with consequent impact on EPS* and cash flow

* before specific items and leaver costs



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Hanif Lalani



Global Services what we have

- ▶ Customer loyalty
- ▶ Good customer service
- ▶ Quality customer base
- ▶ Long term contracts
- ▶ Good people
- ▶ Too much complexity
- ▶ Cost base too high
- ▶ Too much customisation, not enough re-use

Global Services what we're going to do

- ▶ Improve execution of cost reduction plans
- ▶ Manage gross margin more tightly
- ▶ Re-profile contracts
- ▶ Optimise channels to market
- ▶ Rationalise product portfolio
- ▶ Leverage existing solutions

Leading to improved profitability

Global Services cost structure

Actions

H1 cost base

▶ Access cost transformation	£1.2bn
– working with suppliers and partners to optimise design, build and procurement	
▶ External procurement	£1.1bn
– reducing cost and complexity of procurement and supplier base	
▶ Workforce	£1.1bn
– aiming for total labour resource reduction	
▶ Network and IT partners	£0.5bn
– working to simplify our support operations	
Total	£3.9bn

Profit and loss account

£m	Q2 2008/9	Q2 2007/8	Change
Revenue	5,303	5,095	4%
POLOs	1,043	1,054	
Revenue (net)	4,260	4,041	5%
EBITDA*	1,429	1,448	(1%)
Depreciation & amortisation	(685)	(693)	
Operating profit*	744	755	(1%)
Leaver costs	(36)	(43)	
Finance costs (net)	(159)	(92)	
JV & assoc.	5	(3)	
Profit before tax	554	617	(10%)
Specific items net of tax	(28)	(125)	
Tax	(126)	(153)	
Profit for the period	400	339	
Earnings per share*	5.9p	6.1p	(3%)

* before specific items and leaver costs



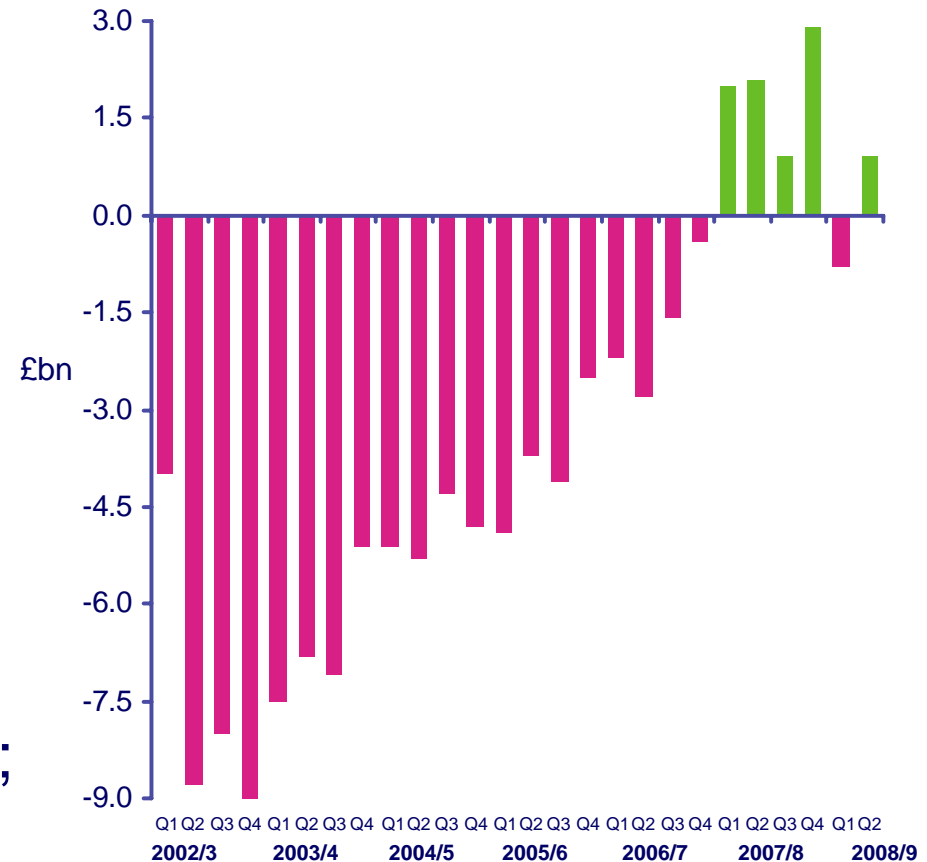
Free cash flow

	Q2 2008/9	Q2 2007/8	Change
	£m	£m	£m
EBITDA (post leavers)	1,393	1,405	(12)
Interest	(145)	(61)	(84)
Tax	(2)	0	(2)
Capex	(712)	(798)	86
Working capital	(168)	(234)	66
Other (incl. specific items)	3	(141)	144
Free cash flow	369	171	198
Net debt	11,028	9,618	1,410

Pension fund Q2 position

- ▶ £0.9bn pre tax surplus at 30 Sept 2008 on IAS19 basis
- ▶ AA bond rates at 7.25% up from 6.70% in Q1
- ▶ Inflation at 3.55% down from 3.90% in Q1
- ▶ BTPS asset value £34.4bn; liabilities value £33.4bn

IAS19 pre tax valuation



Pension fund strategic asset allocation

- ▶ Decision taken three years ago to change asset allocation away from equities
 - reduced exposure to equities from 60% at 31 Dec 2005 to 35% at 30 Sept 2008
- ▶ Focus on return seeking alternative asset classes to diversify away from equities
- ▶ Asset profile more closely matches liabilities
- ▶ In better position ahead of triennial valuation

Pension fund review

- ▶ Review of terms of pension scheme underway
 - Unions and Trustees consulted
 - currently in consultation with members
 - expected to take effect from April 2009
- ▶ Several proposed changes to scheme put forward
- ▶ Proposed changes could reduce ongoing pension cost by c.£100m p.a.
- ▶ Reduction in scheme's future exposure to key risks such as mortality and inflation

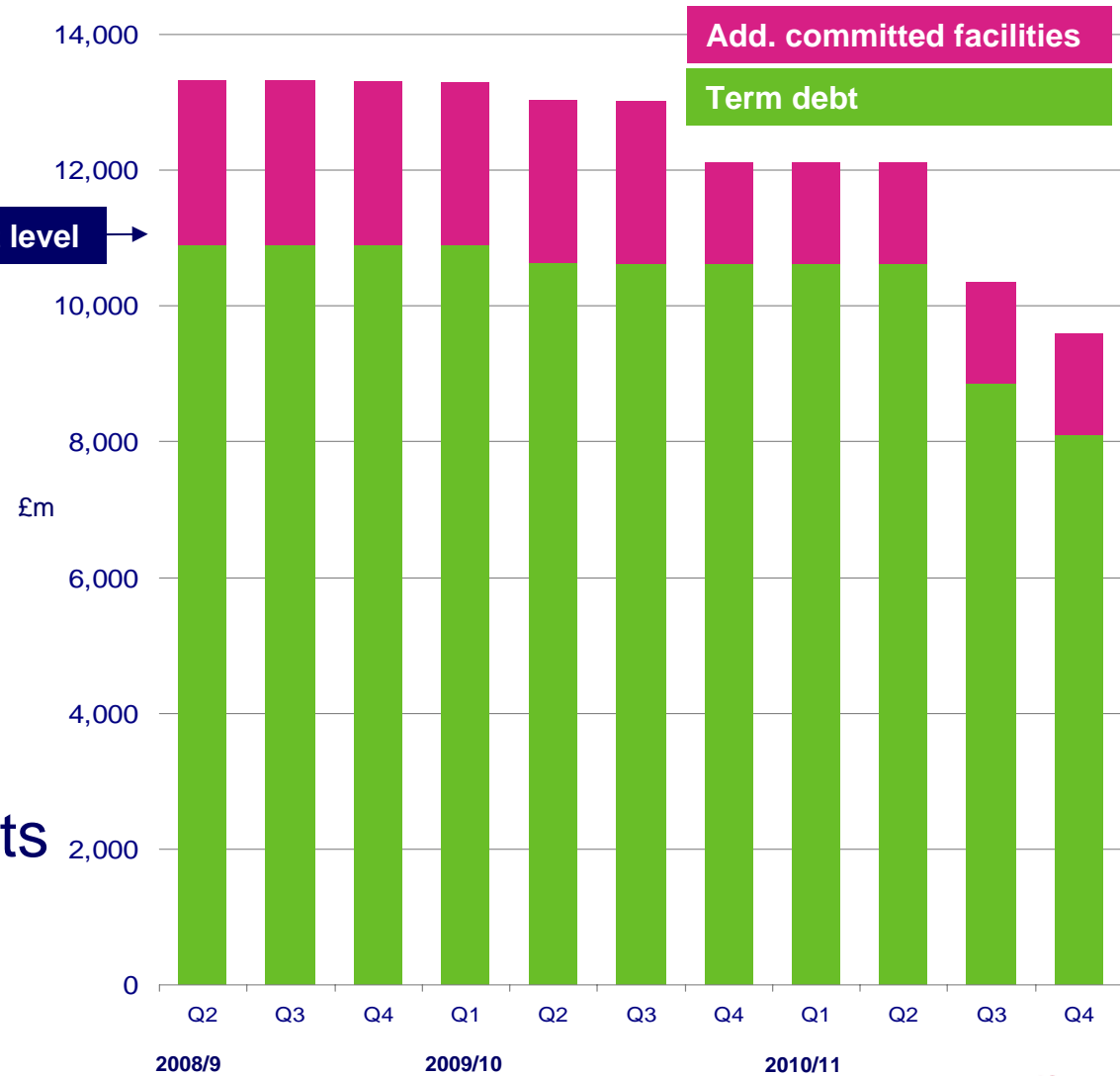
Outcome of review in January

Liquidity

- ▶ £4.3bn debt raised Jun 2007-Jun 2008
- ▶ Q2 net debt £11bn
- ▶ Current debt levels fully funded until Dec 2010
- ▶ No financial covenants on debt

Current net debt level →

Total term debt and committed facilities*



* assuming no renewal or new facilities



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Q&A



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Supplementary information



Pension fund review

BT Pension Scheme proposed changes:

- ▶ Increase in normal retirement age to 65
- ▶ Changing final salary link to a career average revalued earnings basis
- ▶ Increase in member contributions
- ▶ Changes to accrual rates
- ▶ Ceasing to contract out of the State Second Pension
- ▶ Additional flexibility option for members at retirement
- ▶ Proposed changes to come in effect from April 2009 and will only affect future benefit accruals

Pension fund valuations

Funding

IAS19

Purpose	▶ Cash payments	▶ Accounting
Frequency	▶ Every 3 years	▶ Every quarter
Assets	▶ Market value at 31 Dec	▶ Market value each quarter end
Liabilities		
– discount rate	▶ Long term expected return	▶ AA corporate bond rate; updated quarterly
– inflation	▶ Long term expected inflation	▶ Market implied inflation; updated quarterly
Mortality	▶ Based on BTPS specific experience and future expectations updated every 3 years	▶ Based on BTPS specific experience and future expectations updated every 3 years



Bringing it all together