

**BT Group plc**

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**Q3 2008/9 Results**  
**12 February 2009**





**BT Group plc**

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**Ian Livingston**



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# Key topics

- ▶ Sustainable cash generation
- ▶ Cost savings
- ▶ Global Services
- ▶ Pension fund
- ▶ Customer service
- ▶ Regulatory and governmental environment
- ▶ Economy

## Q3 2008/9 key points











### ▶ BT ex Global Services

- performed ahead of expectations
- 5% EBITDA growth
- best year on year performance for 5 years
- benefits of actions taken earlier in year

### ▶ Global Services

- performance poor
- financial and contract reviews
- one-off charges of £336m in Q3
- decisive action being taken to improve performance

# Q3 2008/9 line of business summary results

	Retail	Wholesale	Openreach	Group ex GS	Global Services
<b>Revenue</b>	 <b>1%</b>	 <b>2%</b>	 <b>1%</b>	 <b>flat</b>	 <b>15%</b>
<b>EBITDA*</b>	 <b>6%</b>	 <b>7%</b>	 <b>9%</b>	 <b>5%</b>	 <b>92%</b>

\* before specific items, leaver costs and one-off charges

# Global Services 22 January announcement

- ▶ A number of reviews ongoing within Global Services
- ▶ Financial review
  - balance sheet position
- ▶ Contract reviews
  - covering largest and most complex contracts
  - taking into account more cautious views of cost efficiencies and assumptions in light of economic outlook
  - 17 contracts reviewed
    - 15 completed
    - 2 ongoing and subject to discussion
  - review to be completed in Q4
- ▶ Operational review
  - thorough review of what we do and how we do it
- ▶ Substantial one-off charges in Q3 and further substantial one-off charges may result in Q4

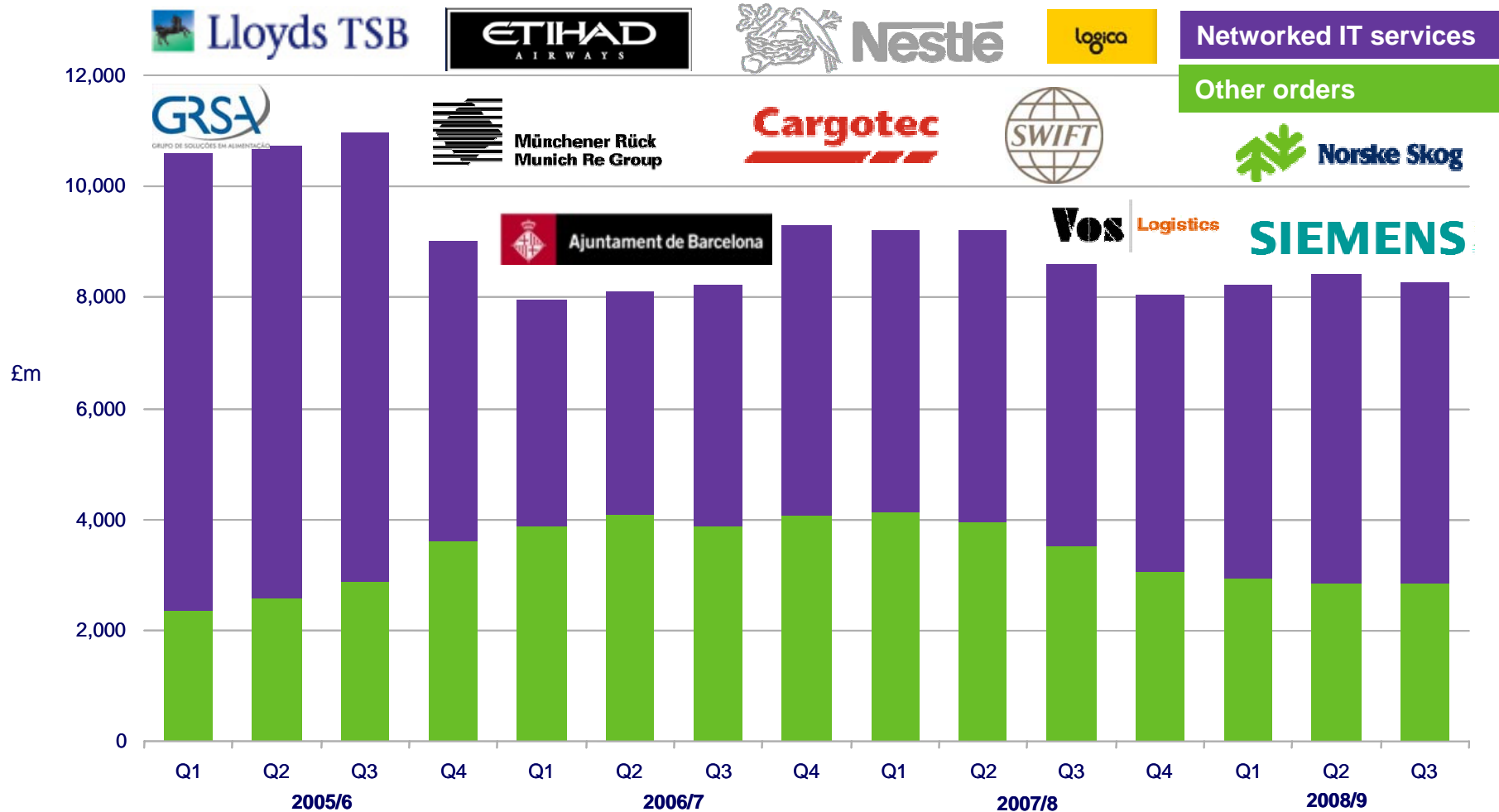
# Q3 2008/9 line of business overview

## Global Services

- ▶ Revenue £2.3bn up 15%
  - broadly flat ex FX & acquisitions
  - non-UK revenue up 40%, UK revenue down 3%
- ▶ EBITDA before one-off charges £17m
  - higher costs and insufficient delivery of cost savings
  - continuing decline in higher margin UK business
  - negative FX impact of £8m
- ▶ Costs up 10% ex FX & acquisitions
- ▶ One-off charges of £336m



# Global Services – rolling 12 month order intake



£1.8bn order intake in Q3

# Global Services actions

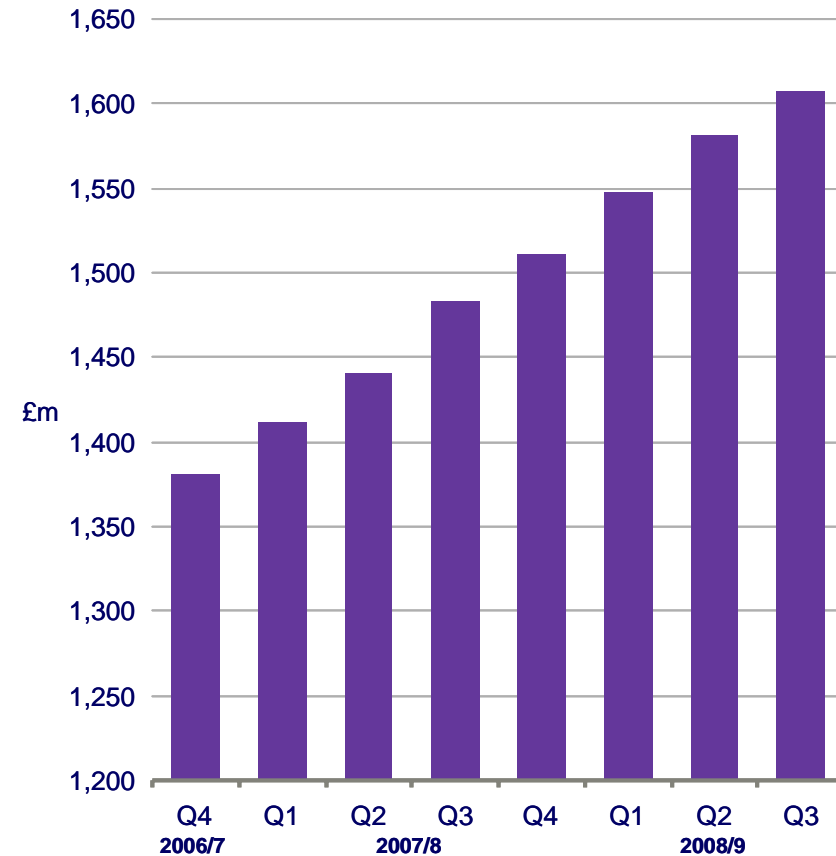
- ▶ New management team
- ▶ Focus on cash generation
  - reduce capital intensity
  - making cash profile less uneven
  - external cash reporting
- ▶ Execute on cost savings
- ▶ Impact of actions to be seen in 2009/10 and beyond
- ▶ More details on operational review will be provided at Q4

# Q3 2008/9 line of business overview

## Retail

- ▶ EBITDA £428m up 6%
- ▶ Revenue £2.1bn down 1%
  - down 3% ex FX & acquisitions
- ▶ SG&A down 7%
  - down 10% ex FX & acquisitions
  - benefits of 'right first time'

### 12m rolling EBITDA



# Q3 2008/9 line of business overview

## Retail

- ▶ Consumer revenue down 6%
  - impact of line losses & some economic impact
  - ARPU\* up £2 to £285
  - retail share of broadband market\*\* 34%
  - focus on value of calling plans
  - BT Vision net adds of 56k
- ▶ Business revenue flat
  - 8% growth in NITS revenue
  - decline in calls and lines

### BT Unlimited Calling Plans



\* ARPU = average annual revenue per consumer household

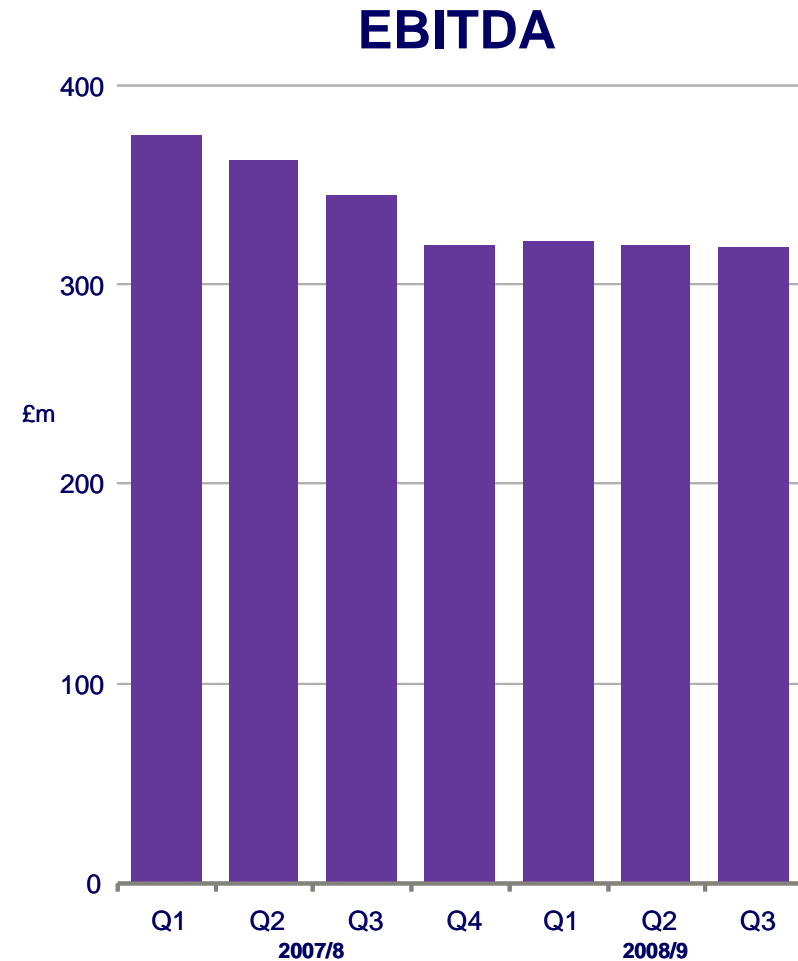
\*\* DSL & LLU total installed base



# Q3 2008/9 line of business overview

## Wholesale

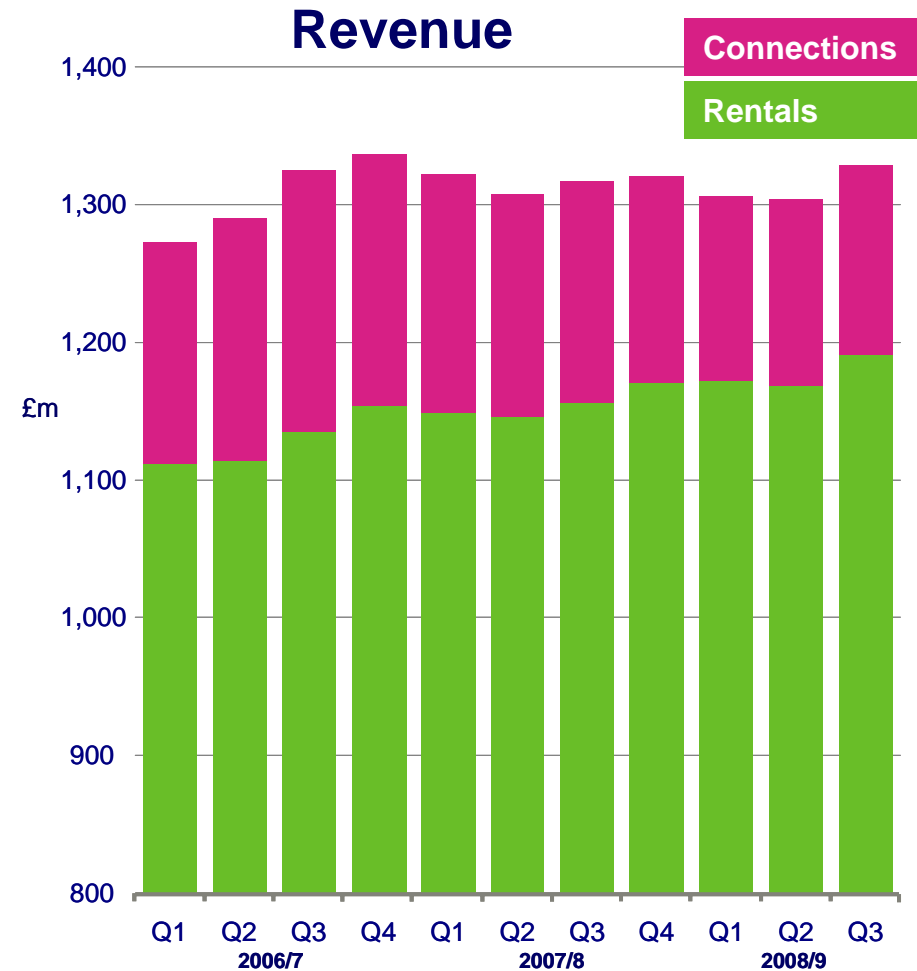
- ▶ Revenue £1.2bn down 2%
  - managed network solutions up 118%
  - slowing rate of decline in transit, conveyance & broadband
  - future impact of mobile termination rates
- ▶ 29% reduction in SG&A
  - customer service efficiencies and productivity improvements from 'right first time' programme
- ▶ EBITDA £319m down 7%



# Q3 2008/9 line of business overview

## Openreach

- ▶ Revenue £1.3bn up 1%
  - external up 18%
  - internal down 3%
- ▶ Operating costs down 4%
  - accelerating cost reduction programmes in response to economic climate
  - lower levels of connection and migration activity
  - access faults down 21%
- ▶ EBITDA £533m up 9%
  - YTD up 5%
- ▶ Price changes
  - major reductions in Ethernet portfolio pricing
  - LLU price increases expected in April



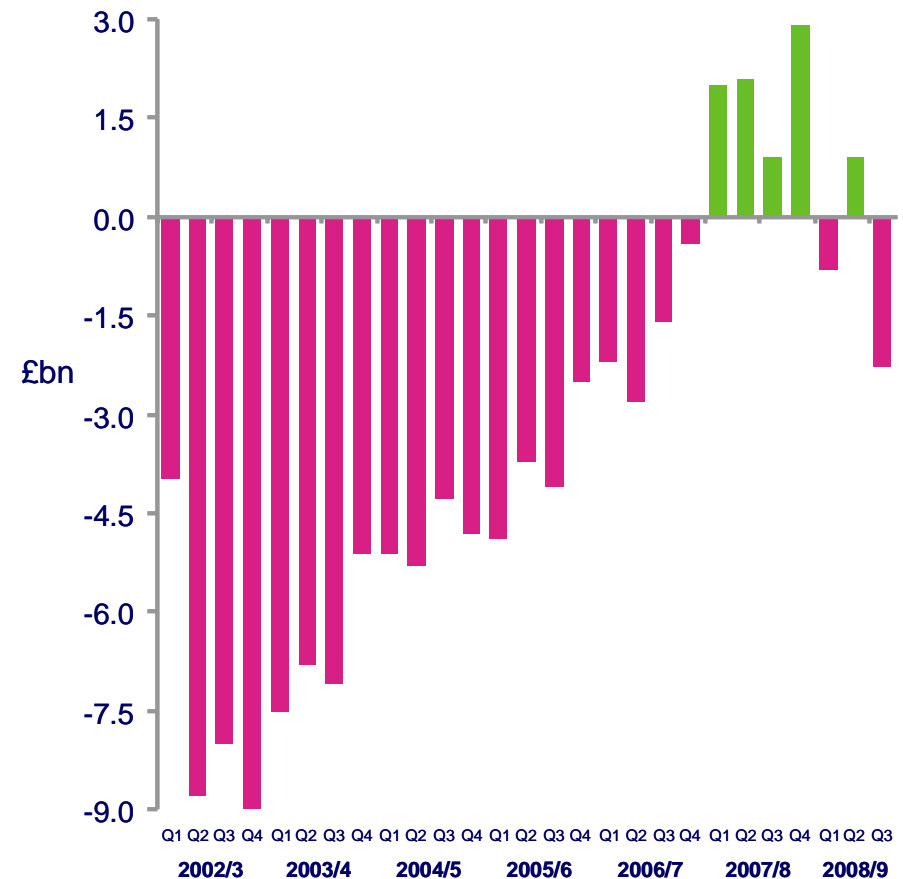
# Platform strategy

- ▶ Software as a Service (SaaS) and Enterprise Cloud Services (ECS)
  - first trials live
  - offering SaaS to customers and more to SME
- ▶ 24Mbps rollout on track
  - available to 40% of UK by April
- ▶ Widest Ethernet footprint
  - on track to deliver 600 nodes by April
- ▶ FTTP – live in Ebbsfleet
  - users experiencing speeds of over 95Mbps
- ▶ FTTC
  - pilots in Muswell Hill and South Glamorgan starting in Summer
  - rollout to 500,000 households starts January 2010

# Pension fund Q3 position

- ▶ £2.4bn pre tax deficit on IAS19 basis
  - AA bond rates at 6.45% (Q2: 7.25%)
  - equity markets lower
  - inflation at 2.70% (Q2: 3.55%)
- ▶ Actuarial funding review under way

## IAS19 pre tax valuation





# Q4 outlook

**Global Services**



Impacted by costs and one-off charges

**Retail**



Continued EBITDA\* growth

**Wholesale**



Continuation of improving trends

**Openreach**



Broadly flat

\* before specific items and leaver costs

# Group outlook

- ▶ Group ex Global Services c.3% EBITDA\* growth
- ▶ Changing cash flow profile in Global Services so less concentrated towards fourth quarter
  - fourth quarter Global Services cash inflow significantly lower than last year's high figure
- ▶ Group free cash flow (before pension deficit payments) over £1bn in 2009/10

\* before specific items and leaver costs





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**Tony Chanmugam**



# My key focus

- ▶ Cost savings
  - deliver net cost reductions
- ▶ Cash generation
  - sustainability
- ▶ Increased transparency
  - LoB cash reporting
- ▶ Better predictability

# Profit and loss account

£m	Q3 2008/9	Q3 2007/8	Change
<b>Revenue</b>	<b>5,437</b>	<b>5,154</b>	<b>5%</b>
POLOs	1,094	1,023	
Revenue (net)	4,343	4,131	
EBITDA* before one-off charges	1,336	1,469	(9%)
One-off charges	(336)	-	
<b>EBITDA*</b>	<b>1,000</b>	<b>1,469</b>	<b>(32%)</b>

\* before specific items and leaver costs



# Profit and loss account

£m	Q3 2008/9	Q3 2007/8	Change
<b>EBITDA*</b>	<b>1,000</b>	<b>1,469</b>	<b>(32%)</b>
Depreciation & amortisation	(723)	(732)	
<b>Operating profit*</b>	<b>277</b>	<b>737</b>	<b>(62%)</b>
Leaver costs	(33)	(20)	
Finance costs (net)	(180)	(134)	
JV & assoc.	16	(2)	
<b>Profit before tax**</b>	<b>80</b>	<b>581</b>	<b>(86%)</b>
Specific items net of tax	36	(96)	
Tax	(19)	(120)	
Profit for the period	97	365	
<b>Earnings per share*</b>	<b>1.1p</b>	<b>5.9p</b>	<b>(81%)</b>

\* before specific items and leaver costs

\*\* before specific items



# Free cash flow

£m	Q3 2008/9	Q3 2007/8	Change
<b>EBITDA*</b>	<b>1,000</b>	<b>1,469</b>	<b>(469)</b>
Leavers	(33)	(20)	(13)
<b>EBITDA</b>	<b>967</b>	<b>1,449</b>	<b>(482)</b>
Interest	(305)	(344)	39
Tax	(111)	(70)	(41)
Capex	(789)	(877)	88
Working capital**	130	(294)	424
Other (incl. specific items)	76	(85)	161
<b>Free cash flow</b>	<b>(32)</b>	<b>(221)</b>	<b>189</b>
Net debt	11,060	10,175	885

\* before specific items and leaver costs

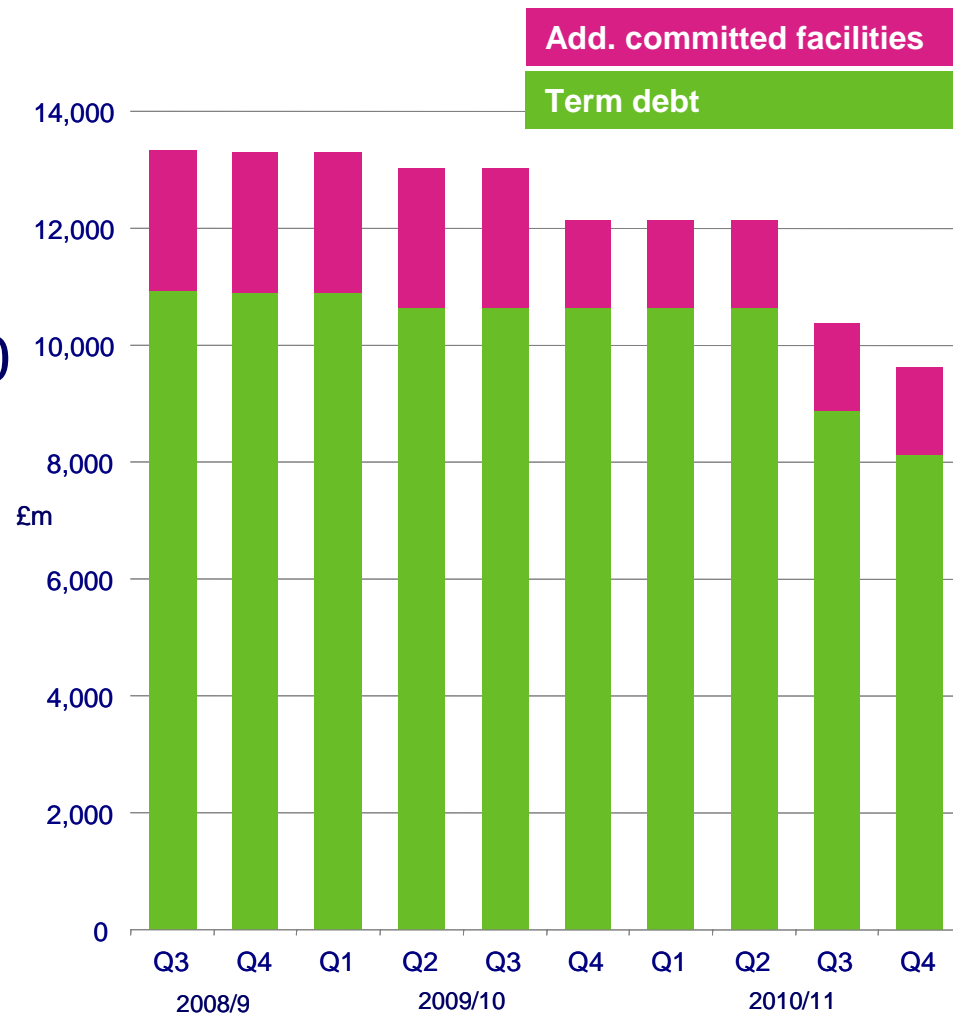
\*\* working capital impacted by one-off charges



# Liquidity

- ▶ Q3 net debt £11.1bn
- ▶ No requirement for major refinancing until Dec 2010
- ▶ No financial covenants on debt

Total term debt and committed facilities\*



\* assuming no renewal or new facilities





# Q3 2008/9 movement in cost base\* ex BTGS



**c.7% underlying reduction in cost base**

\* before specific items, leaver costs, depreciation and amortisation, excluding other operating income



# Total labour resource progress

At end 2007/8:

Direct labour

c.110,000

Indirect labour (agency, contractors, offshore)

c.50,000

TLR

c.160,000

Reductions to 31 Dec 2008:

Direct labour

c.2,300

Indirect labour (agency, contractors, offshore)

c.7,200

TLR

c.9,500

# Cost savings progress

## ▶ Retail

- service call centres reduced overall costs while improving quality of service
- continued focus on total labour costs and overhead value analysis

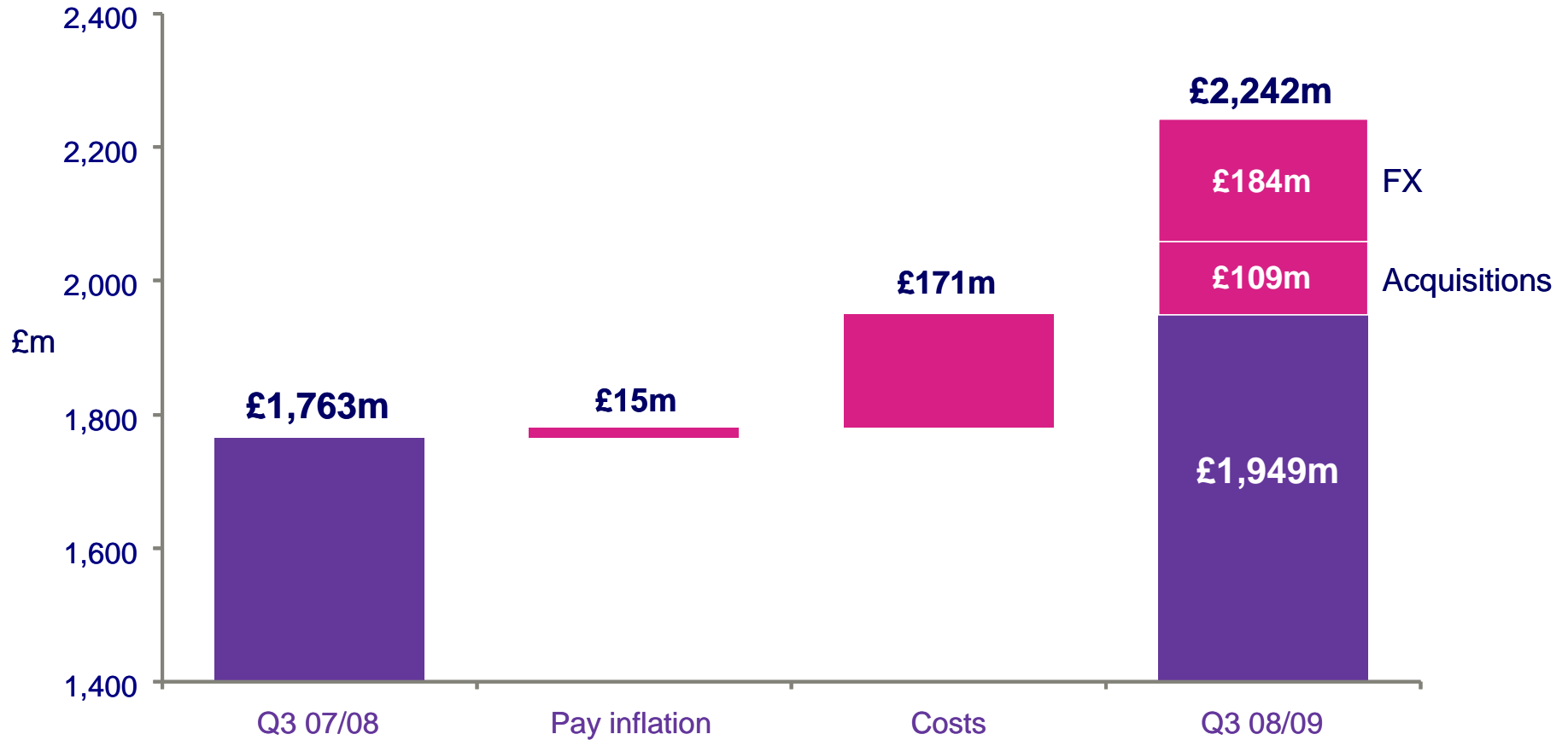
## ▶ Openreach

- reclamation of copper
- improved network reliability
- lower overtime and fewer agency and third party contractors

## ▶ Wholesale

- increased automation in fault handling and lower fault rates
- streamlining and removing duplication in products

# Q3 2008/9 movement in BTGS cost base\*



**Cost base increased by c.10%**

\* before one-off charges, specific items, leaver costs, depreciation and amortisation, excluding other operating income



# Global Services actions taken on cost cutting

- ▶ Workforce
  - c.1,500 net TLR reduction YTD, c.70% indirect
- ▶ External procurement
  - consolidation of supplier base
- ▶ Access cost transformation
  - supplier reviews and renegotiations ongoing
  - needs to accelerate
- ▶ Other costs
  - consultancy
  - T&S

Impact of actions to be seen in 2009/10



Bringing it all together





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## Q&A

