

**BT Group plc**

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# **Q1 2009/10 results**

**30 July 2009**



# Forward-looking statements caution

Certain statements in this results release 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: revenue, operating cost and capital expenditure reduction, and free cash flow and EBITDA; progress in Global Services; plans for future networks and roll out of super fast broadband; and the liquidity and funding position.

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 not being realised; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the Global Services' revised operating model and restructuring plan not being achieved; completion of the pension fund actuarial valuation; 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.

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**Ian Livingston**



# Q1 2009/10 key points

- ▶ Solid start to year
- ▶ Revenue up 1%
  - underlying revenue down 3%
- ▶ EBITDA\* down 3%
  - Group ex. Global Services EBITDA\* up 6%
  - sequential improvement in Global Services
- ▶ Cost reductions being delivered
- ▶ Free cash flow improved by £612m over Q1 last year
  - including benefit of tax repayment

\* before specific items and leaver costs

# Q1 2009/10 line of business overview

## Global Services

	Q1 2009/10	Change
Revenue	£2,079m	4%
EBITDA	£62m	(66)%
Operating cash flow	£(459)m	£178m

- ▶ Underlying revenue down 4%
  - impacted by continued decline in calls and lines in UK and Europe
- ▶ EBITDA\* increased by over 90% sequentially
- ▶ Operating cash flow improvement due to working capital and capex

\* before contract and financial review charges in prior period

# Q1 2009/10 line of business overview

## Global Services

- ▶ Order intake of £1.4bn in quarter



- ▶ Underlying operating costs up 1%
  - year on year reductions expected from Q2
- ▶ Improving delivery of cost reduction programmes
  - total labour resource
  - procurement
  - network costs

# Q1 2009/10 line of business overview

## Retail

	Q1 2009/10	Change
Revenue	£2,110m	(2)%
EBITDA	£476m	26%
Operating cash flow	£363m	£194m

- ▶ Underlying revenue before one-off down 6%
  - SME's impacted by economic conditions
  - account transfers from Global Services
- ▶ Net operating costs down 8%
- ▶ EBITDA before one-off up 16%
  - low prior year comparator
  - growth rate expected to return to mid single digits for the rest of the financial year
- ▶ Improved operating cash flow due to increase in EBITDA, improved cash collections and lower capex

# Q1 2009/10 line of business overview

## Retail

- ▶ Broadband
  - market share increased to 35% of installed base\*
  - 46% share of net adds\* at 78,000
- ▶ Consumer ARPU\*\* up £3 from Q4
- ▶ BT Vision base at 433,000
- ▶ ADSL2+ and super-fast broadband launched for consumers and small businesses
- ▶ Expanded partnership with Vodafone in Ireland

\* DSL + LLU

8 \*\* excluding one-off benefit



# Q1 2009/10 line of business overview

## Wholesale

	Q1 2009/10	Change
Revenue	£1,142m	(1)%
EBITDA	£320m	(1)%
Operating cash flow	£108m	£63m

- ▶ Further declines in transit revenue expected
- ▶ Managed network solutions revenue more than doubled
  - 10 year deal with KCOM
- ▶ Net operating costs down 1%
- ▶ Slowing rate of decline in EBITDA
- ▶ Operating cash flow improvement

# Q1 2009/10 line of business overview

## Openreach

	Q1 2009/10	Change
Revenue	£1,306m	flat
EBITDA	£503m	2%
Operating cash flow	£237m	£(19)m

- ▶ Consistent trend in revenue
- ▶ Net operating costs down 1%
- ▶ EBITDA up 2%
- ▶ Accelerated investment in super-fast broadband

# Building a better business



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**Tony Chanmugam**



# Profit and loss account

£m	Q1 2009/10	restated Q1 2008/9	Change
<b>Revenue</b>	<b>5,235</b>	<b>5,177</b>	<b>1%</b>
POLOs	1,048	1,037	
Revenue (net)	4,187	4,140	
<b>EBITDA*</b>	<b>1,371</b>	<b>1,417</b>	<b>(3)%</b>
Depreciation & amortisation	(738)	(691)	
<b>Operating profit*</b>	<b>633</b>	<b>726</b>	<b>(13)%</b>

\* before specific items and leaver costs

# Profit and loss account

£m	Q1 2009/10	restated Q1 2008/9	Change
<b>Operating profit*</b>	<b>633</b>	<b>726</b>	<b>(13)%</b>
Finance costs	(214)	(208)	
JV & assoc.	8	1	
<b>Profit before tax*</b>	<b>427</b>	<b>519</b>	<b>(18)%</b>
Leaver costs	(45)	(73)	
Pension interest	(69)	78	
Specific items	(41)	(27)	
Reported profit before tax	272	497	
Tax	(58)	(115)	
Profit for the period	214	382	
<b>Adjusted* EPS</b>	<b>4.2p</b>	<b>5.1p</b>	<b>(18)%</b>
<b>Reported EPS</b>	<b>2.8p</b>	<b>4.9p</b>	<b>(43)%</b>

\* before specific items, leaver costs and net interest on pensions

# Free cash flow

£m	Q1 2009/10	restated Q1 2008/9	Change
<b>EBITDA*</b>	<b>1,371</b>	<b>1,417</b>	<b>(46)</b>
Leavers	(45)	(73)	
<b>EBITDA</b>	<b>1,326</b>	<b>1,344</b>	<b>(18)</b>
Interest	(284)	(285)	1
Tax	210	-	210
Capex	(678)	(836)	158
Working capital	(599)	(962)	363
Other	(56)	32	(88)
Specific items	(41)	(27)	(14)
<b>Free cash flow</b>	<b>(122)</b>	<b>(734)</b>	<b>612</b>
<b>Net debt</b>	<b>(10,517)</b>	<b>(10,581)</b>	<b>64</b>

\* before specific items and leaver costs

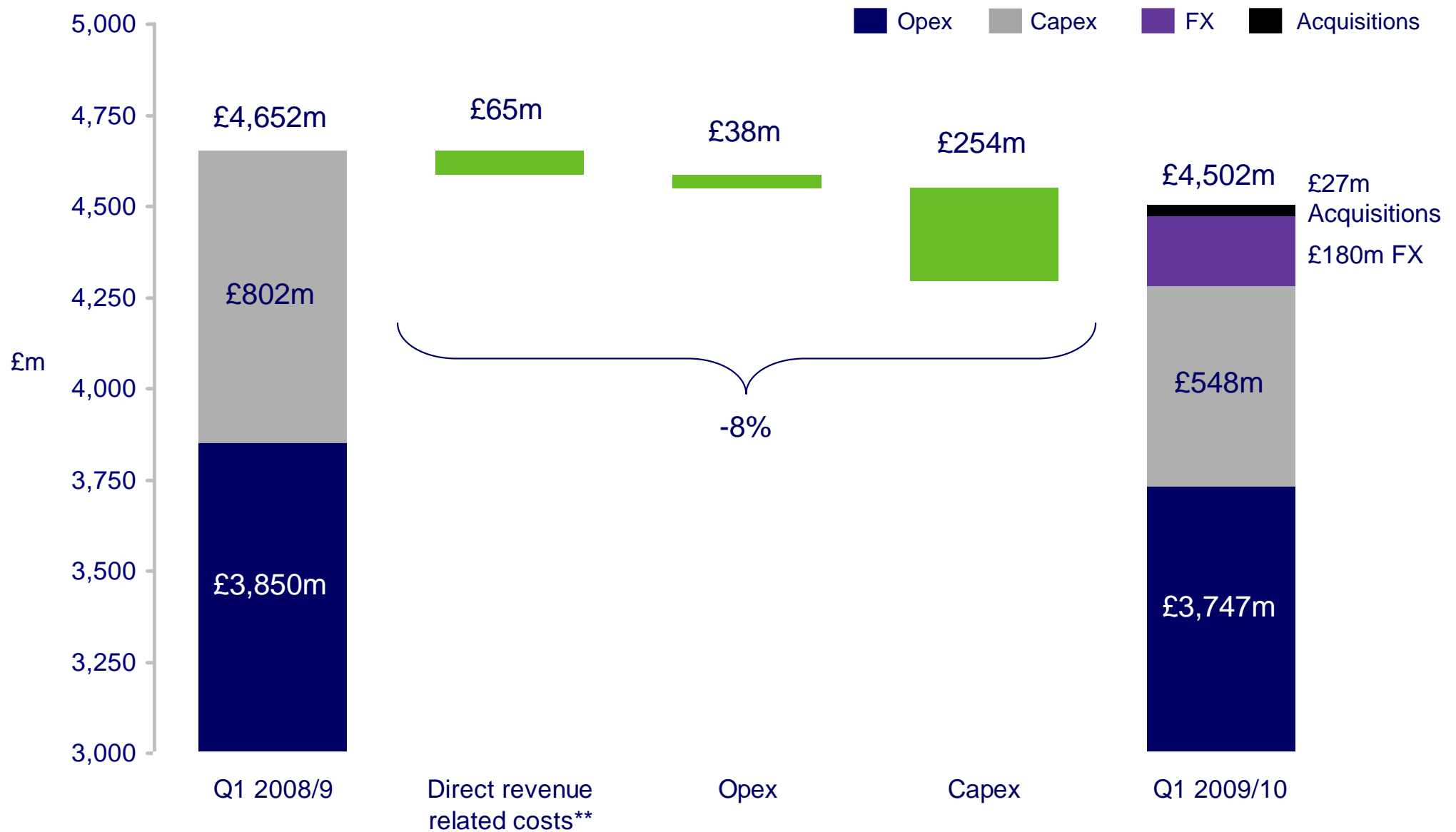
# Operating cash flow by line of business

£m	Q1 2009/10	Q1 2008/9	Change
Global Services	(459)	(637)	178
Retail	363	169	194
Wholesale	108	45	63
Openreach	237	256	(19)
Other	(185)	(149)	(36)
Operating cash flow	64	(316)	380
Group items*	(186)	(418)	232
<b>Group free cash flow</b>	<b>(122)</b>	<b>(734)</b>	<b>612</b>

\* leaver costs, interest, tax, specific items and other



# Q1 2009/10 group cost savings\*

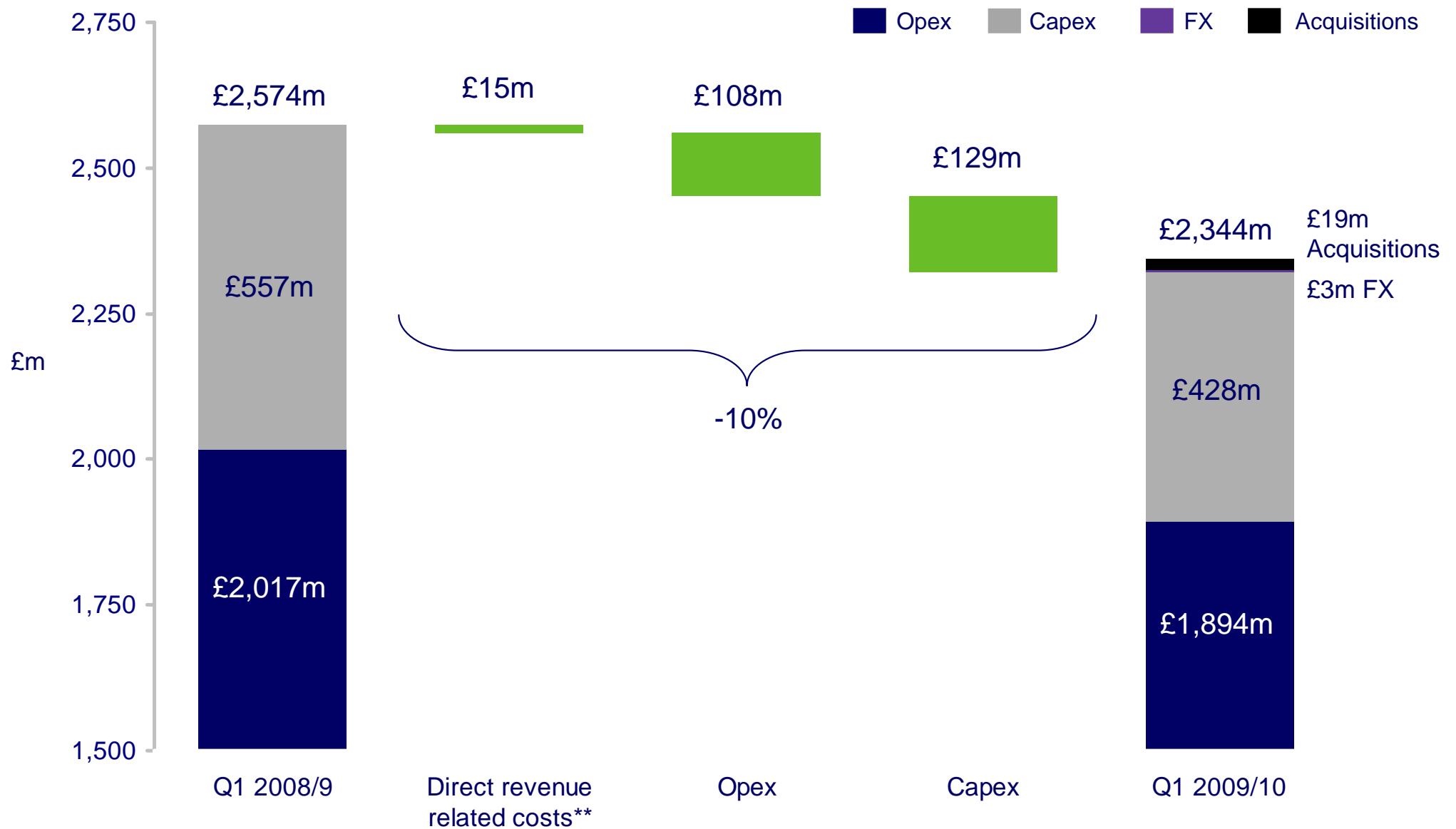


\*before specific items, leaver costs and depreciation & amortisation

17 \*\* POLOs and transit



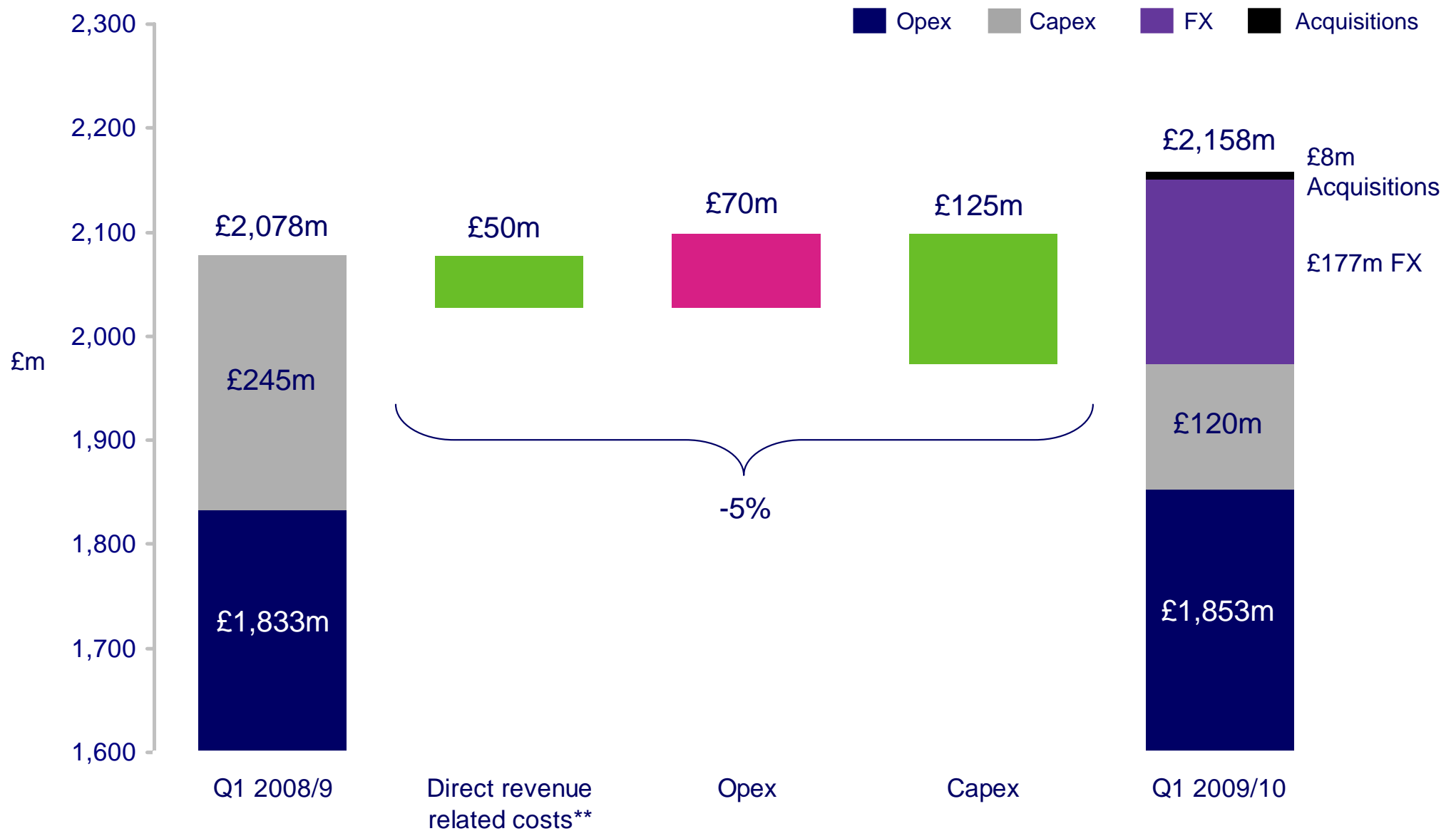
# Q1 2009/10 group ex Global Services cost savings\*



\*before specific items, leaver costs and depreciation & amortisation



# Q1 2009/10 Global Services cost savings\*



\*before specific items, leaver costs and depreciation & amortisation



# Other financials

- ▶ Pension fund - IAS19 position
  - £5.8bn deficit post tax
  - AA bond rates at 6.20%; inflation at 3.25%
  - as at 24 July 2009 deficit post tax was £5.0bn
- ▶ Pension fund - triennial valuation
  - discussions continue
  - agreed £525m p.a. deficit contributions for next 3 years will not be impacted
- ▶ Liquidity
  - €600m bond issued in Q1, oversubscribed
  - undrawn committed facilities of £2.4bn

# 2009/10 year ahead

**Solid start to the year**

**Making progress, more to do**

**No change to overall guidance**

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## Q&A

