

BT Group plc

Q2 2009/10 results

12 November 2009



BT Group plc

Ian Livingston



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, capital expenditure and total operating cost reductions, free cash flow, net debt and dividends; EBITDA; enhanced roll out of fibre and super fast broadband; and progress in BT Global Services delivery of cost savings.

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 BT 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.

Q2 2009/10 agenda

Ian Livingston

- ▶ Group results
- ▶ Line of business results
- ▶ Pension fund
- ▶ Network investments
- ▶ Outlook

Tony Chanmugam

- ▶ Income statement
- ▶ Free cash flow
- ▶ Cost savings

Ian Livingston

- ▶ Building a better business

Q2 2009/10 group results

Revenue¹

reported

£5,122m

3%



underlying

6%



EBITDA²

£1,436m

2%



Total underlying costs³

down £575m

12%



Earnings per share²

4.5p

8%



Free cash flow

£705m

up £336m



Interim dividend

2.3p

¹ before specific items

² before specific items, leaver costs and net interest on pensions

³ underlying operating costs and capital expenditure

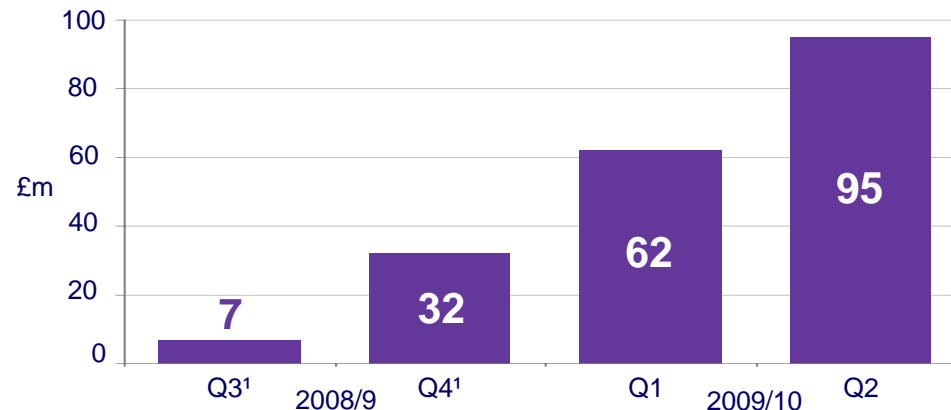
Q2 2009/10 line of business overview

Global Services

	Q2 2009/10	Change
Revenue	£2,024m	(3)%
EBITDA	£95m	(10)%

- ▶ Underlying revenue down 8%
 - down 5% excluding major contract milestone in prior year
 - declines in calls and lines in UK and Europe, mobile termination rate reductions and lower equipment sales
- ▶ Underlying operating costs down 8% (down 11% incl. capex)

▶ EBITDA



Q2 2009/10 line of business overview

Global Services

- ▶ Order intake £1.4bn in quarter, rolling 12 month £7.1bn
 - market trend towards lower order value and longer lead times
 - improved qualification and bid process driving better quality contracts



- ▶ New operating structure
 - focused on key sectors and products
 - some small disposals from GS Enterprises

- ▶ External recognition



“global leader of global leaders”



Q2 2009/10 line of business overview

Retail

	Q2 2009/10	Change
Revenue	£2,062m	(5)%
EBITDA	£475m	11%

- ▶ Migration of lines and lower call volumes
- ▶ Net operating costs down 9%
- ▶ EBITDA up 11%
 - underlying EBITDA¹ up 7%

Q2 2009/10 line of business overview

Retail

Consumer

- ▶ ARPU up £6 to £296
- ▶ Broadband
 - 43% share of net adds¹, share of installed base¹ remains at 35%
- ▶ BT Vision base at 436,000
 - over 90% of new customers in the quarter took a package
 - total numbers of views has tripled since last year
- ▶ Bundling opportunities

Business

- ▶ Economic climate impacting SME market
- ▶ £15 p.m. unlimited calls package option



Q2 2009/10 line of business overview

Wholesale

	Q2 2009/10	Change
Revenue	£1,125m	(4)%
EBITDA	£328m	1%

- ▶ Mobile termination price reductions impacting revenue
- ▶ Net operating costs down 6%
- ▶ EBITDA up 1%
- ▶ Contracts with Vodafone and O₂ for SME market

Q2 2009/10 line of business overview

Openreach

	Q2 2009/10	Change
Revenue	£1,285m	(1)%
EBITDA	£507m	4%

- ▶ External revenue up 24%
 - migration to external CPs ➡ internal revenue down 7%
- ▶ Net operating costs down 4%
- ▶ EBITDA up 4%

Pension fund IAS19 valuation

£bn	Actual at 30 Sept 09	Change since 31 Mar 09	
Assets	32.6	3.3	
Liabilities	(41.9)	(8.8)	
Discount rate (real)	2.28%	(1.56)pp	

- ▶ Increase in deficit due to decline in real bond yields

Deficit

pre tax	(9.4)	(5.4)
post tax	(6.8)	(3.9)

- ▶ Pre tax surplus of £0.9bn at 30 September 2008

Pension fund valuation bases

- ▶ IAS 19 valuation
 - accounting measure
 - highly volatile to market fluctuations particularly AA bond rates and inflation

- ▶ Triennial funding valuation
 - Trustees prudent valuation to set level of contributions
 - expect conclusion next calendar year
 - deficit contributions of £525m p.a. for next 3 years agreed

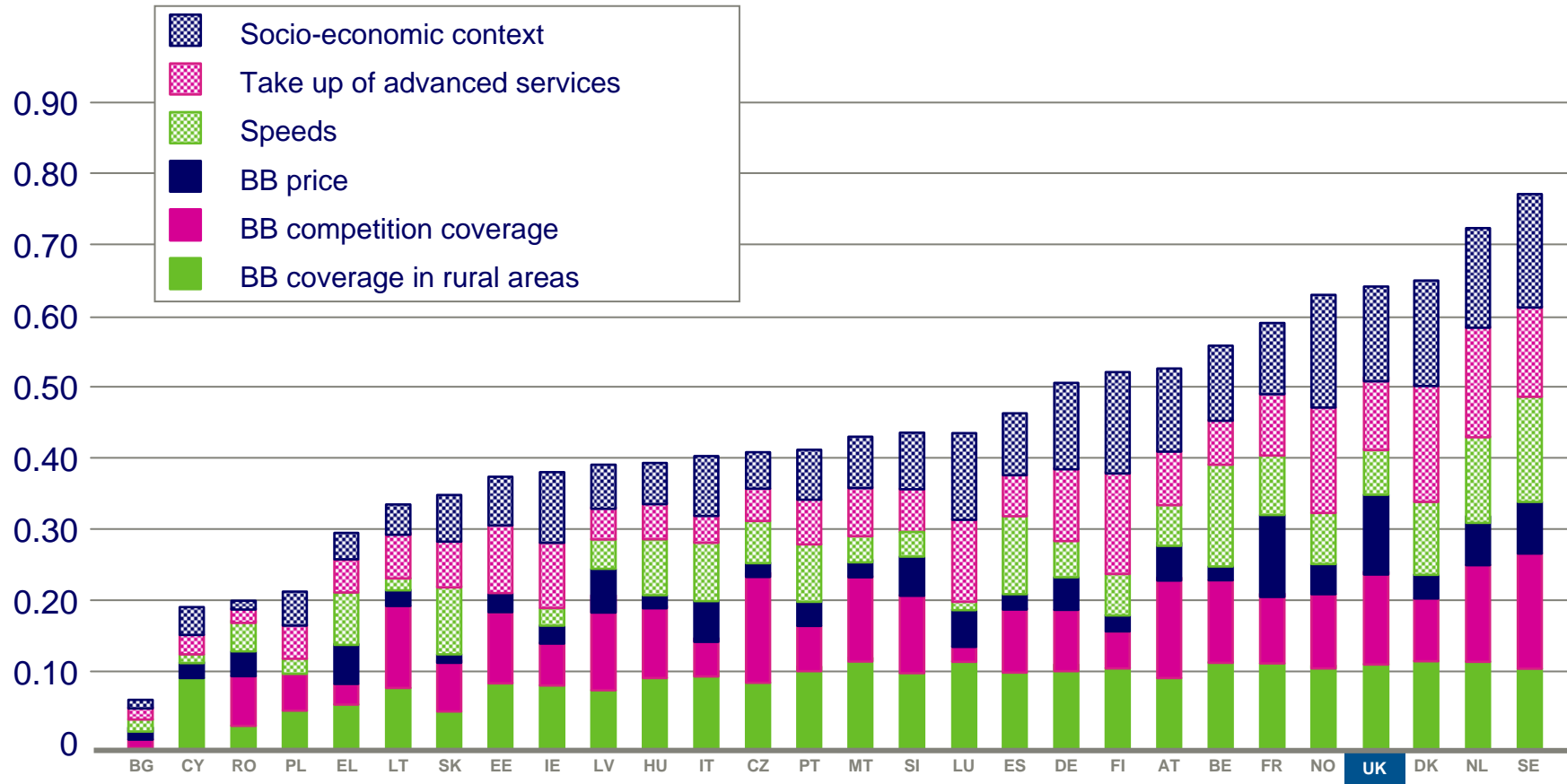
- ▶ PPF and discontinuance valuation bases

- ▶ Historic returns
 - not a published measure
 - reflects estimate of out-turn based on historic returns

Network investments

- ▶ Fibre to the cabinet
 - rolling out to 1.5m premises by Summer 2010
- ▶ Fibre to the premise
 - 25% of 10m premises by 2012
- ▶ Bidding to roll out fibre in Cornwall and Northern Ireland
- ▶ ADSL2+
 - increasing availability to 75% of UK homes and businesses by Spring 2011
- ▶ Ethernet
 - 700 nodes, extending our market leading position







EU Broadband Performance Index



UK ranked 4th in index



2009/10 outlook

	Previous	New	
Revenue ¹ decline	4%-5%	3%-4%	
Capital expenditure	c.£2.7bn	c.£2.6bn	
Total underlying cost ² reductions	well over £1bn	at least £1.5bn	
Free cash flow ³	over £1bn	at least £1.6bn	
Net debt		below £10bn	
Full year dividend		c.5% up	

¹ before specific items, leaver costs and net interest on pensions

² underlying operating costs and capital expenditure

³ before gross pension deficit payments of £525m, but after cash costs of BT Global Services restructuring

BT Group plc

Tony Chanmugam



Income statement

£m	Q2 2009/10	Q2 2008/9 ¹	Change
Revenue²	5,122	5,303	(3)%
POLOs	1,040	1,043	
Revenue (net)	4,082	4,260	
EBITDA²	1,436	1,407	2%
Depreciation & amortisation	(759)	(685)	
Operating profit²	677	722	(6)%

Income statement

£m	Q2 2009/10	Q2 2008/9 ¹	Change
Operating profit²	677	722	(6)%
Net finance expense (ex. pension interest)	(225)	(237)	
Associates & JVs	9	5	
Profit before tax²	461	490	(6)%
Leaver costs	(21)	(36)	
Pension interest	(70)	78	
Specific items (before tax)	(95)	(38)	
Reported profit before tax	275	494	
Tax	153	(116)	
Profit for the period	428	378	
Reported EPS	5.5p	4.9p	12%
Adjusted² EPS	4.5p	4.9p	(8)%

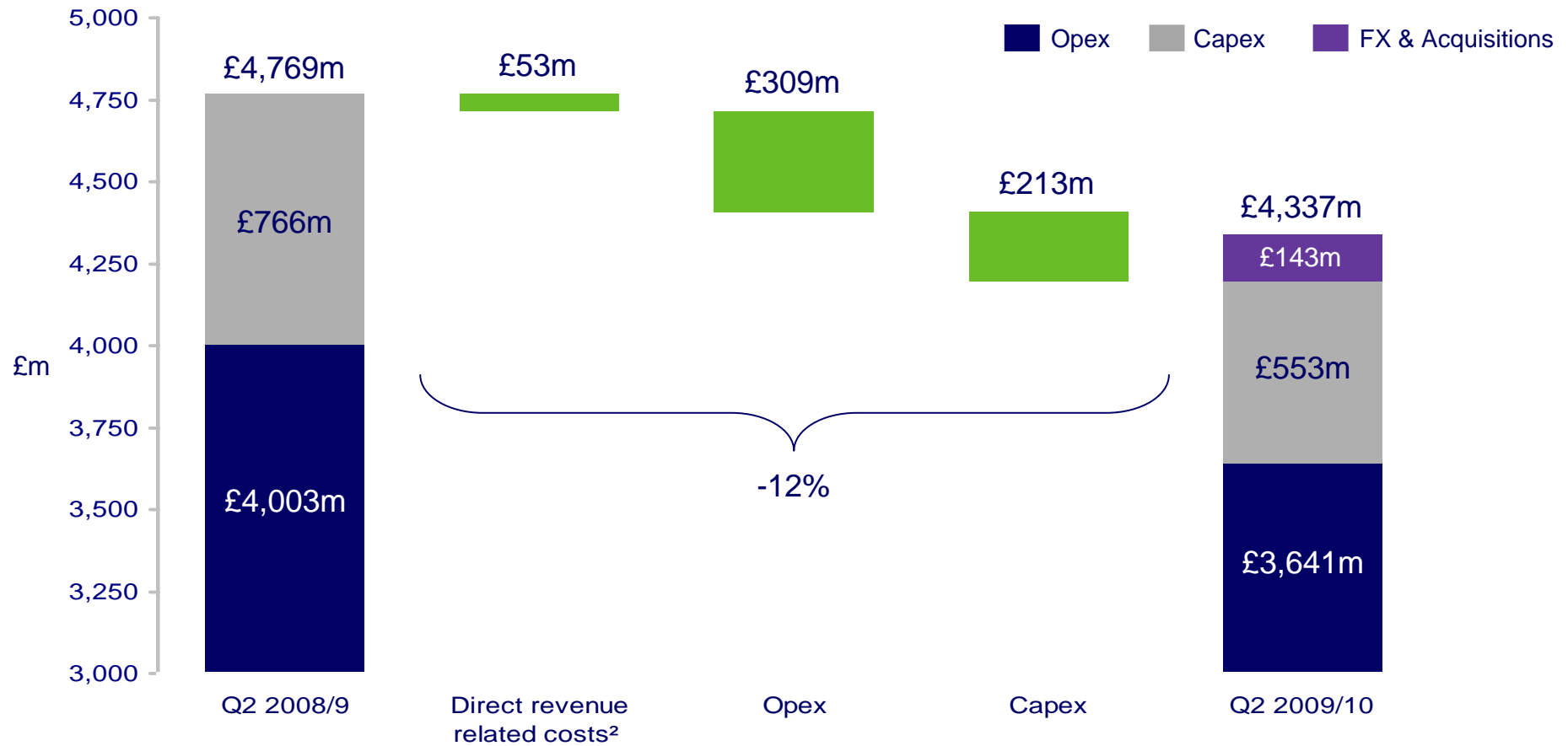
Free cash flow

£m	Q2 2009/10	Q2 2008/9 ¹	Change
EBITDA²	1,436	1,407	29
Leavers	(21)	(36)	15
EBITDA	1,415	1,371	44
Interest	(152)	(145)	(7)
Tax	201	(2)	203
Capex	(555)	(712)	157
Working capital	(100)	(168)	68
Other	(9)	63	(72)
Specific items	(95)	(38)	(57)
Free cash flow	705	369	336
Net debt	(9,878)	(11,028)	1,150

Operating cash flow by line of business

£m	Q2 2009/10	Q2 2008/9	Change
Global Services	(94)	(222)	128
Retail	453	253	200
Wholesale	196	318	(122)
Openreach	307	277	30
Other	(157)	(257)	100
Group free cash flow	705	369	336

Q2 2009/10 group cost reductions¹



- ▶ Q1 cost reductions of £357m
- ▶ Q2 cost reductions of £575m

¹ before specific items, leaver costs, depreciation & amortisation and other operating income

² POLOs and transit

2009/10 cost savings

- ▶ Total labour resource
- ▶ Supplier management
- ▶ Telco
- ▶ Other

2009/10 continued delivery

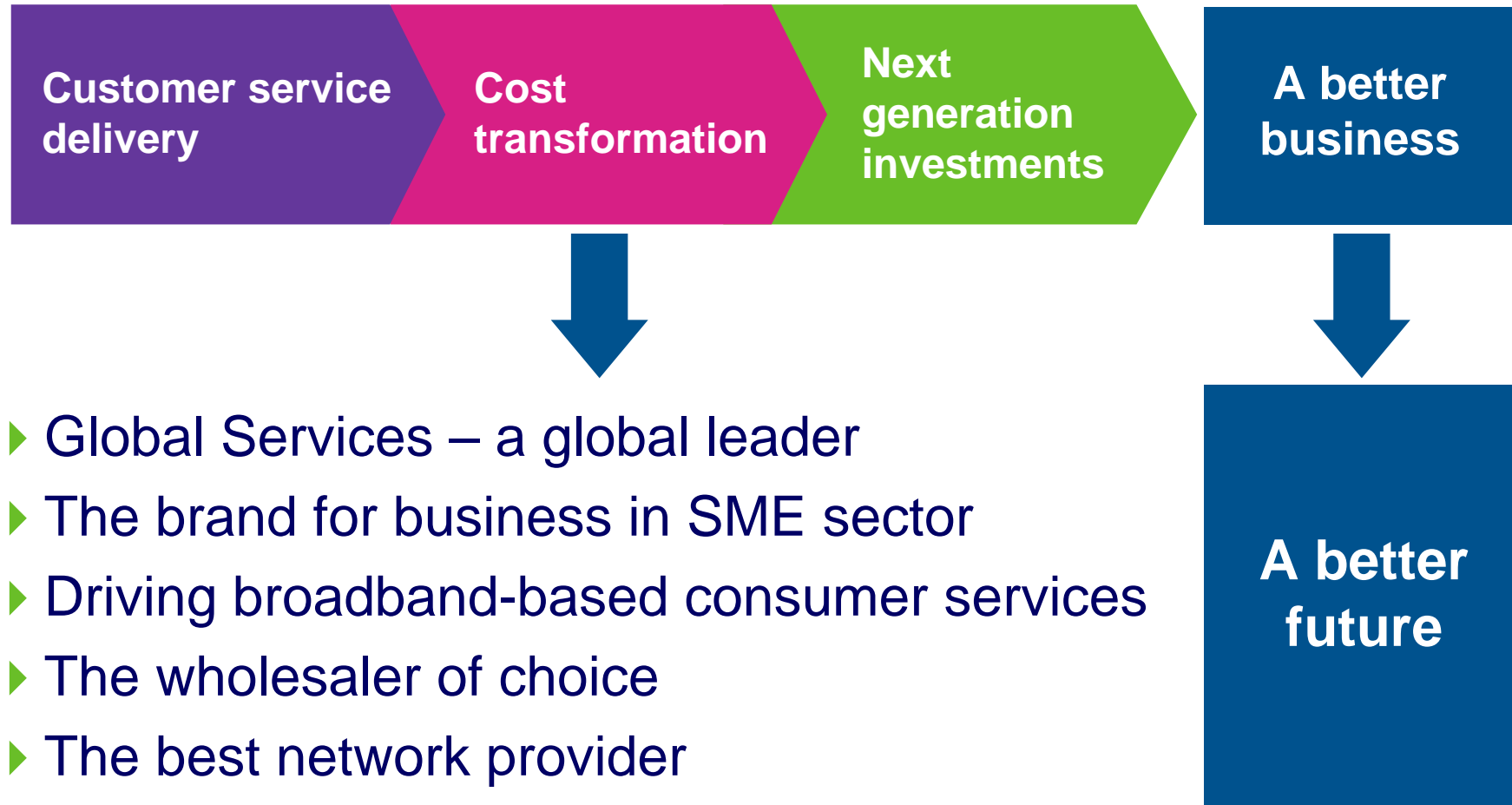
- ▶ Improving profitability through reducing costs
- ▶ Improving cashflow
- ▶ Investing in the future

BT Group plc

Ian Livingston



Building a better future



Emerging stronger from recession

A better business



A better future

BT Group plc

Q&A

