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BT Group plc

Q1 2010/11 Results

29 July 2010

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Ian Livingston

Q1 2010/11 group results

Revenue	£5,006m	4%
EBITDA[1]	£1,399m	6%
EPS[1]	4.4p	16%
Free cash flow	£415m	up £537m
Net debt	£8,879m	down £1,638m

[1] before specific items

Q1 2010/11 line of business summary results

	Global Services	Retail	Wholesale	Openreach
Adjusted[1] revenue	3%	7%	6%	4%
Adjusted[2] EBITDA	110%	2%	flat	8%
Operating[3] cash flow	92%	11%	79%	2%

[1] prior year adjusted for impact of customer account moves and changes to internal trading model
[2] before specific items, prior year restated for impact of customer account moves
[3] prior year restated for impact of customer account moves

Q1 2010/11 line of business overview

Global Services

	Q1 2010/11	Change
Revenue	£2,007m	(3)%
EBITDA	£130m	110%
Operating cash flow	£(38)m	£427m

- Revenue down 3%
  - decline in calls and lines, impact of broader economic conditions
- Net operating costs down 7%
- EBITDA more than doubled
- Strong cash performance, partly driven by major contract receipt
- Order intake £1.6bn, rolling 12 month order intake £6.8bn
- UK public sector accounts for c.10% of group revenue

Q1 2010/11 line of business overview

Retail

	Q1 2010/11	Change
Revenue	£1,925m	(7)%[1]
EBITDA	£442m	(2)%[1]
Operating cash flow	£293m	£(35)m[1]

- Revenue down 5% excl. prior year one-off benefit
  - Consumer down 6%, Business down 4%
- Net operating costs down 8%
- EBITDA up 7% excl. prior year one-off benefit
- ARPU up £5 to £314
- 40% share of broadband net adds[2]
- Sky Sports broadcast from 1 August
  - great value premium sports packages from £6.99 per month

[1] prior year restated for impact of customer account moves
[2] DSL + LLU

Q1 2010/11 line of business overview

Wholesale

	Q1 2010/11	Change
Adjusted revenue	£1,059m	(6)%[1]
EBITDA	£339m	flat[2]
Operating cash flow	£217m	£96m[2]

- Adjusted revenue down 6%
  - revenue down 2% excl. transit
- Net operating costs down 8%[3]
- MNS contract wins of >£1bn
  - including management of Orange broadband infrastructure in UK

[1] prior year adjusted for impact of customer account moves and changes to internal trading model
[2] prior year restated for customer account moves
[3] excluding changes to internal trading model

Q1 2010/11 line of business overview

Openreach

	Q1 2010/11	Change
Adjusted revenue	£1,200m	(4)%[1]
EBITDA	£511m	8%
Operating cash flow	£225m	£(4)m

- Adjusted revenue flat excl. prior year one-off
- Net operating costs down 8%[2]
- Fibre roll out accelerating in line with plan
  - over 1.5m premises passed in July
  - now averaging c.100,000 premises passed per week
  - costs consistent with our expectations

[1] prior year adjusted for changes to internal trading model
[2] excluding changes to internal trading model and leaver costs

Pensions

	December 2008	March 2010	June 2010
Deficit valuations:			
- Trustee's funding	£9.0bn	c.£6.6bn	-
- Median estimate	£3.0bn	c.£1.5bn	-
- IAS19 (net)	£1.7bn	£5.7bn	£5.7bn

- Pensions Regulator discussions ongoing
- Crown Guarantee
- Change to indexation

Other matters

- Regulation
  - Ofcom treatment of pensions

- Pay agreement
  - 3 year deal
  - 3% annual pay increases
  - consultative ballot ongoing

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on track

more to do

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Tony Chanmugam

Reporting changes

- Adjusted EBITDA is post leavers
- Account moves
  - transfer of certain service provider customers from Retail to Wholesale
  - no impact on group revenue and EBITDA
- Changes to internal trading model
  - reduces internal revenue in both Wholesale and Openreach by £62m per quarter in 2010/11
  - corresponding reduction in group eliminations
  - no impact on group revenue
- Pension interest now included in specific items

Key financials summary

£m	Q1 2010/11	Q1 2009/10	Change
Revenue	**5,006**	5,235	**(4)%**
- no significant impact from FX			
- MTR and transit impact c.1%			
- reflects expected trend, improvement in H2			
EBITDA[1]	**1,399**	1,326	**6%**
- operating costs[2] reduced by £291m			
- Q2 trend lower but improves in H2 due to profile of investments			

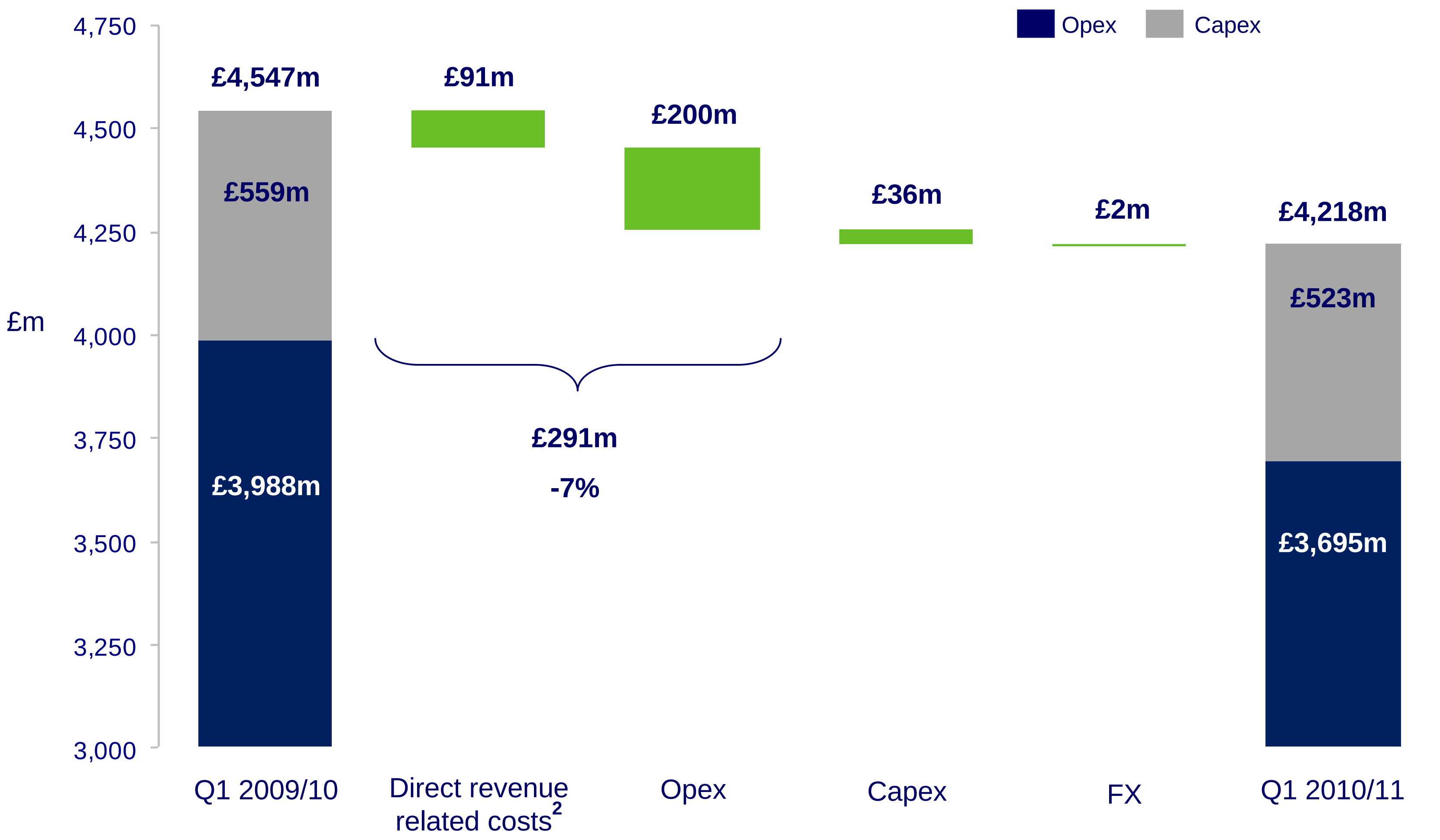
[1] before specific items

[2] before specific items, depreciation and amortisation

Key financials summary

£m	Q1 2010/11	Q1 2009/10	Change
Free cash flow	**415**	(122)	**537**
Capex	**(610)**	(678)	**68**
- will increase over remaining quarters due to phasing of programmes			
Working capital/other	**(9)**	(656)	**647**
- improvement due to GS contract receipt			
- less volatile cash flow profile			
Tax	**(5)**	210	**(215)**
- no significant payment in H1			
- settlement received in prior period			
Net interest	**(295)**	(284)	**(11)**
Net debt	**8,879**	10,517	**1,638**

Q1 2010/11 group cost reductions[1]



[1] before specific items, depreciation, amortisation and other operating income
[2] POLOs and transit

Fibre roll out costs

- Progress to date
  - > 1.5m premises passed
  - > 4k cabinets ready for service
  - 135 exchanges accepting orders
- Costs of roll out
  - FTTC in line with our expectations
  - some elements of spend common to FTTC/FTTP
  - FTTP at trial stage, in line with European comparators

2010/11 Outlook underpinned by Q1 results

Revenue	c.£20bn
Operating cost savings[1]	c.£900m
EBITDA[2]	in line with 2009/10
Free cash flow[3]	c.£1.8bn
Net debt	<£9bn

[1] operating costs before specific items, depreciation and amortisation
[2] before specific items
[3] before specific items (which are expected to result in cash outflow of c.£150m in 2010/11) and pension deficit payment

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Q&A

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