

*A better business*

  
*A better future*

**BT Group plc**

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**Q2 2010/11 Results**

**11 November 2010**

*A better business*



**BT Group plc**

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**Ian Livingston**











# Forward-looking statements caution

Certain statements in these presentations 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: EBITDA; free cash flow; full year and future outlook; return to revenue growth; BT Global Services' progress and investment in Asia Pacific; take up of, and enhancements in, our TV offering; BT Business improving trends; demand for and roll out of fibre; the pension deficit and impact of the change to indexation; cost reductions; fibre roll out costs and future spend; and debt, interest payments and effective tax rates.

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# Q2 & H1 2010/11 group results

	Q2 2010/11 Change	H1 2010/11 Change
Revenue <sup>1</sup>	3% 	4% 
EBITDA <sup>1</sup>	3% 	4% 
EPS <sup>1</sup>	16% 	16% 
Free cash flow	£170m 	£367m 
Net debt		£1.2bn 
Interim dividend		2.4p 4% 

**Increased EBITDA and free cash flow outlook**

<sup>1</sup> before specific items  
4

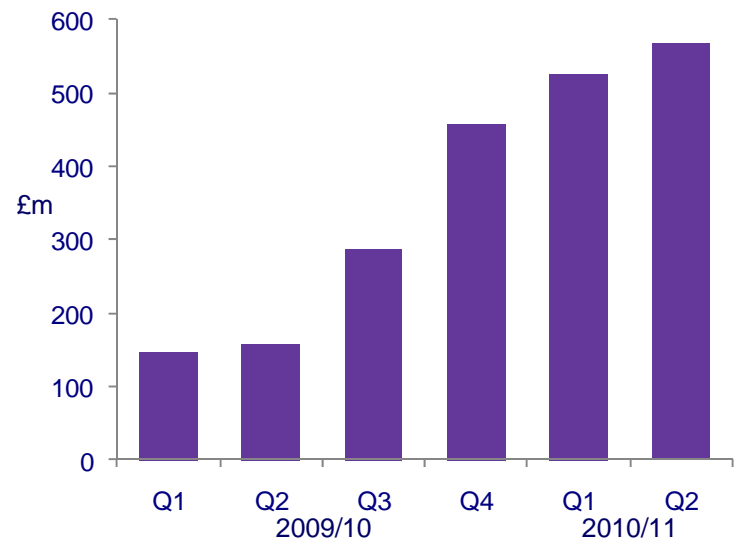
# Q2 2010/11 line of business overview

## Global Services

	Q2 2010/11	Change
Revenue	£1,991m	(2)%
EBITDA	£138m	45%
Operating cash flow	£(28m)	£75m

- ▶ Revenue down 2%
  - decline in UK calls and lines; lower wholesale volumes in Europe
- ▶ Net operating costs down 4%
- ▶ EBITDA up 45%
- ▶ Improvement in operating cash flow
  - H1 benefited from major customer receipt

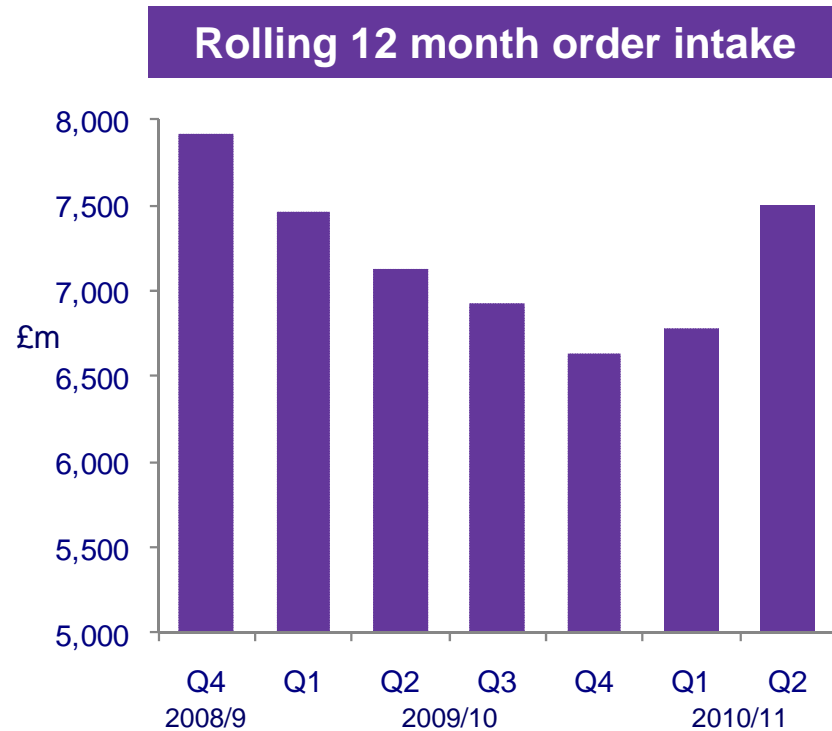
### Rolling 12 month EBITDA



# Q2 2010/11 line of business overview

## Global Services

- ▶ Order intake of £2.1bn
  - e.g. DFTS, UBS, Nationwide, Anglo American, Ministerio de Defensa de España
- ▶ Public sector
  - DWP and DFTS contracts renegotiated and extended
  - MOU signed
  - continuing dialogue with government
- ▶ AsiaPac
  - investment in people and services
  - growing pipeline
- ▶ SmartReach
  - smart metering consortium comprising BT, Arqiva and Detica



# Q2 2010/11 line of business overview

## Retail

	Q2 2010/11	Change <sup>1</sup>
Revenue	£1,929m	(4)%
EBITDA	£414m	(8)%
Operating cash flow	£333m	£(97)m

- ▶ Revenue down 4%
  - Consumer down 6%
  - Business flat
- ▶ Net operating costs down 3%
  - cost savings partially offset by planned incremental investments in subscriber acquisition, marketing and product development
- ▶ EBITDA down 8%
  - down 5% excluding one-off internal rebate last year

<sup>1</sup> prior year restated for customer account moves

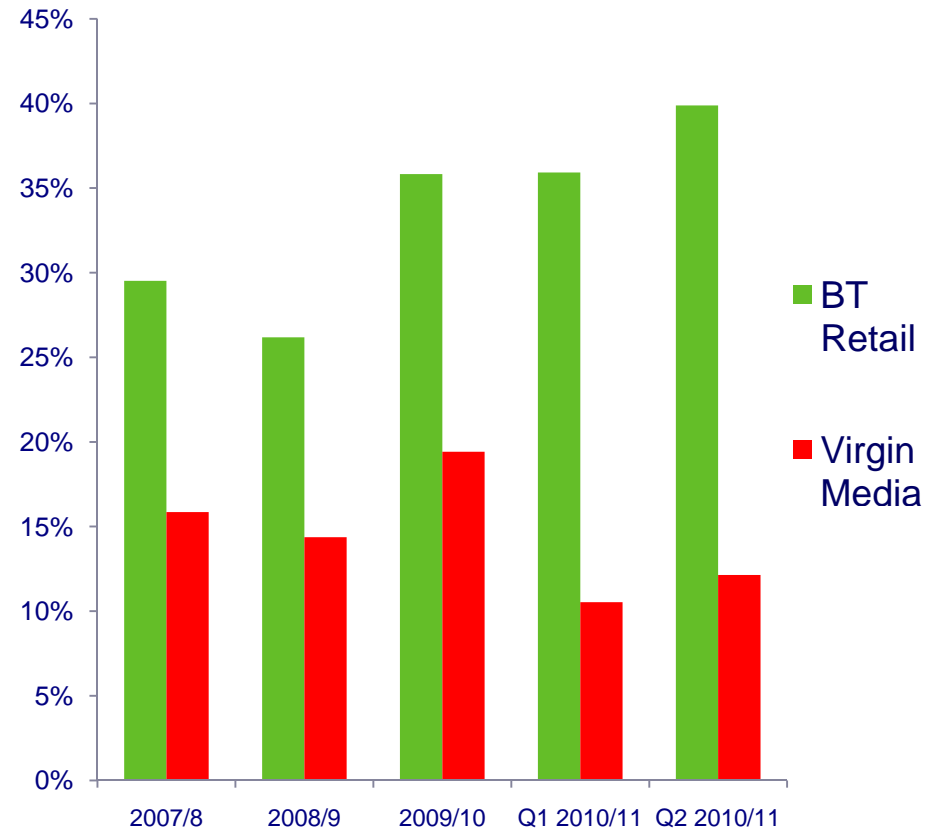


# BT Retail

- ▶ Consumer ARPU of £317<sup>1</sup>
  - up £3 due to uptake of more services
- ▶ Broadband net adds of 114,000
  - up c.60% YoY
  - 40% share of net adds including cable
  - c.1.6m customers on up to 20Mbps and 40Mbps services
- ▶ Growth in WiFi
  - over 2m WiFi hotspots
  - customer minutes more than doubled over last year
  - new BT Fon ad

<sup>1</sup>12 month rolling consumer revenue, divided by number of lines

## Share of broadband net adds (inc cable)







# BT Vision

>500k BT Vision customers

Sky Sports 1&2 launched



Q2 2010/11

Full BBC iPlayer



3D movies

Faster HD downloads



H2 2010/11

Vision 2.0  
enhanced & personalised  
user interface, interactivity,  
social media



Multicast  
SD & HD linear channels

OnLive gaming



2011/12

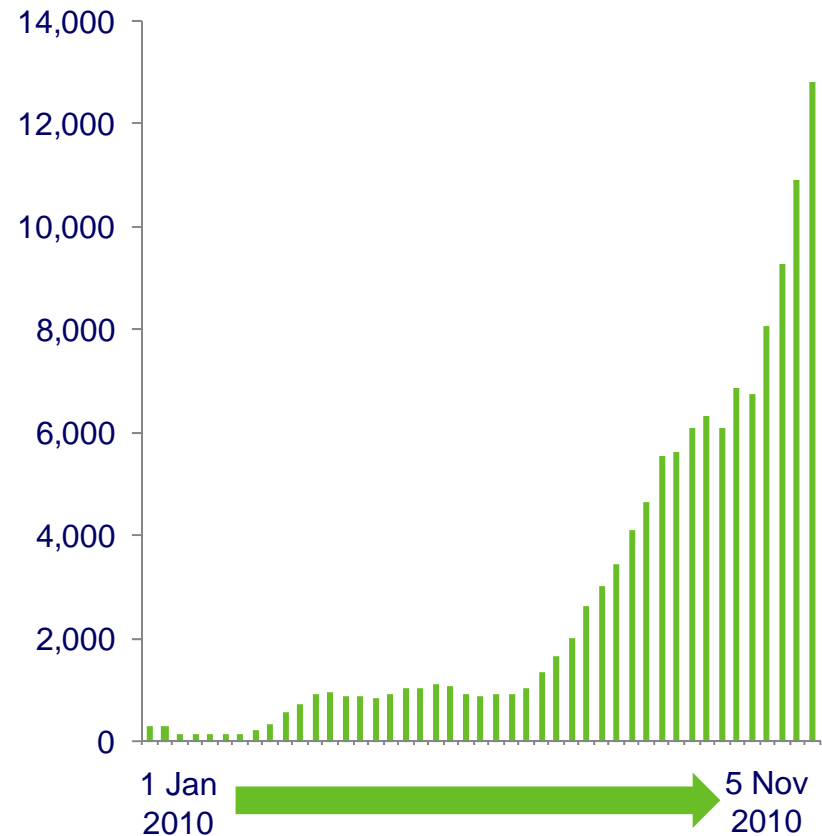
# BT's Vision of the future

# BT Infinity

- ▶ Orders currently running at over 4,000 per week
  - c.38,000 customers connected
- ▶ Majority of sales are higher end product
- ▶ ‘Race to Infinity’
  - Nationwide initiative to gauge local demand for fibre broadband
  - [www.bt.com/racetoinfinity](http://www.bt.com/racetoinfinity)



## Rolling 4 weekly net adds

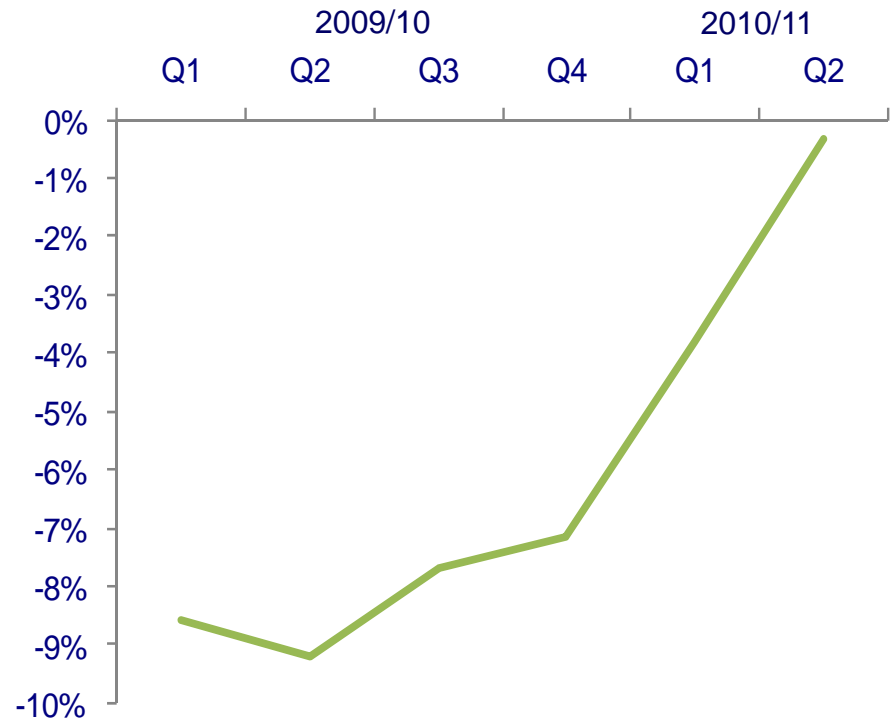


# BT Business the 'Brand for Business'

Improvement in revenue trends driven by:

- ▶ Reduction in line losses
  - over 40% improvement from last year
- ▶ Strength of One Plan offering innovative pricing and product bundles
- ▶ Double digit growth in IT services and mobility revenues

**BT Business YoY revenue**



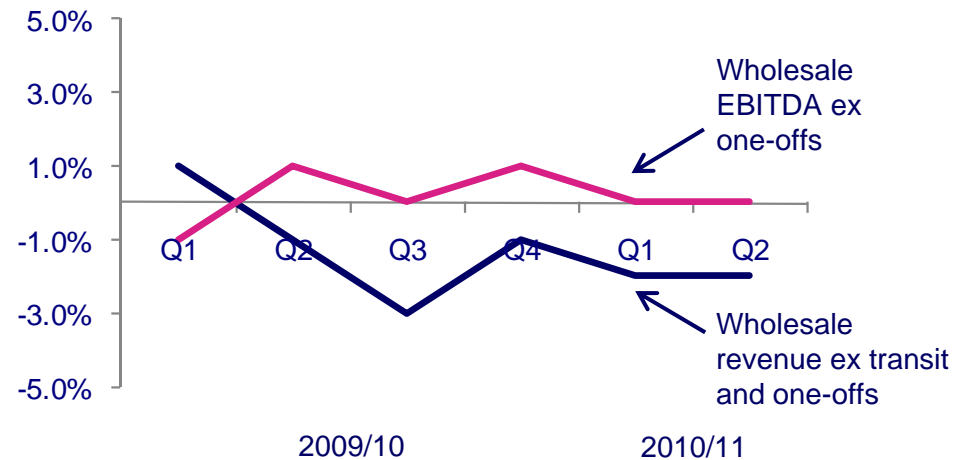
# Q2 2010/11 line of business overview

## Wholesale

	Q2 2010/11	Change
Adjusted revenue	£1,054m	(5)% <sup>1</sup>
EBITDA	£326m	(5)% <sup>2</sup>
Operating cash flow	£222m	£10m <sup>2</sup>

- ▶ Adjusted revenue down 5%
  - down 2% excluding transit and regulatory charge
  - managed network services 23% of external revenue
- ▶ Net operating costs down 5%<sup>1</sup>
- ▶ Revenue and EBITDA excluding transit and one-offs broadly stable

### Revenue and EBITDA trend



<sup>1</sup> prior year restated for customer account moves and adjusted for changes in the internal trading model

<sup>2</sup> prior year restated for customer account moves



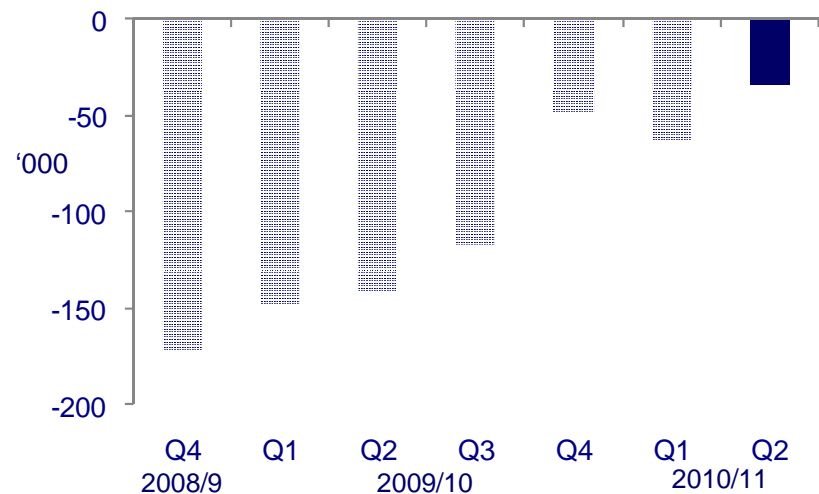
# Q2 2010/11 line of business overview

## Openreach

	Q2 2010/11	Change
Adjusted revenue	£1,235m	flat <sup>1</sup>
EBITDA	£532m	5%
Operating cash flow	£255m	£(25)m

- ▶ Adjusted revenue flat
  - external revenue up 22% reflecting growth in LLU
  - reduction in line loss
- ▶ Net operating costs down 3%<sup>1</sup>
- ▶ EBITDA up 5%
- ▶ Cash flow reflects investment in fibre roll out programme

### QoQ total line loss



<sup>1</sup> prior year adjusted for changes in the internal trading model



# Q2 2010/11 line of business overview

## Openreach

- ▶ 3m premises passed in fibre roll out
  - 25 CPs trialling or selling products at Openreach and BT Wholesale level
- ▶ Phase 6 exchange areas announced
  - taking total announced coverage to c.7m premises
- ▶ Private/public investment
  - Cornwall £132m to fibre up to 90% of region
  - Northern Ireland 60% of roll out completed
  - local initiatives
- ▶ FTTP
  - >100Mbps downstream, 30Mbps upstream
  - pilots in Bradwell Abbey (Milton Keynes), Highams Park (London) and Ebbsfleet (Kent)



# Pensions

- ▶ IAS 19 deficit - £3.8bn net of tax (31 Mar 2010: £5.7bn)
  - assets - £34.9bn (31 Mar 2010: £35.3bn; 31 Dec 2008: £31.3bn)
  - £2.9bn (£2.1bn net) reduction in deficit from change to CPI indexation
  
- ▶ Median estimate deficit - £0.2bn
  - discount rate:     5.8% nominal  
                          2.7% real
  
- ▶ Crown Guarantee ruling
  
- ▶ Pensions Regulator discussions ongoing

# Building a better future

- ▶ Driving broadband-based consumer services
- ▶ Being the 'Brand for Business' for UK SMEs
- ▶ BT Global Services – a global leader
- ▶ The wholesaler of choice
- ▶ The best network provider



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Progress made

More to do

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**Tony Chanmugam**

# Income statement

£m	Q2 2010/11	Q2 2009/10	Change
<b>Revenue<sup>1</sup></b>	<b>4,977</b>	<b>5,122</b>	<b>(3)%</b>
POLOs	970	1,040	
Revenue (net) <sup>1</sup>	4,007	4,082	
<b>EBITDA<sup>1</sup></b>	<b>1,452</b>	<b>1,415</b>	<b>3%</b>
<b>Operating profit<sup>1</sup></b>	<b>715</b>	<b>656</b>	<b>9%</b>
Net finance expense <sup>1</sup>	(224)	(225)	
<b>Profit before tax<sup>1</sup></b>	<b>496</b>	<b>440</b>	<b>13%</b>
Tax <sup>1</sup>	(98)	(103)	
<b>EPS<sup>1</sup></b>	<b>5.1p</b>	<b>4.4p</b>	<b>16%</b>
Specific items <sup>2</sup>	2	91	

<sup>1</sup> before specific items

<sup>2</sup> net of specific tax

# Free cash flow

£m	Q2 2010/11	Q2 2009/10	Change
<b>EBITDA<sup>1</sup></b>	<b>1,452</b>	<b>1,415</b>	<b>37</b>
Interest <sup>1</sup>	(163)	(163)	-
Tax <sup>1</sup>	(10)	(14)	4
Capex	(602)	(555)	(47)
Working capital/other	(101)	(139)	38
<b>Free cash flow pre specifics</b>	<b>576</b>	<b>544</b>	<b>32</b>
Specific items	(41)	161	(202)
<b>Free cash flow post specifics</b>	<b>535</b>	<b>705</b>	<b>(170)</b>
<b>Net debt</b>	<b>8,704</b>	<b>9,878</b>	<b>1,174</b>

<sup>1</sup> before specific items

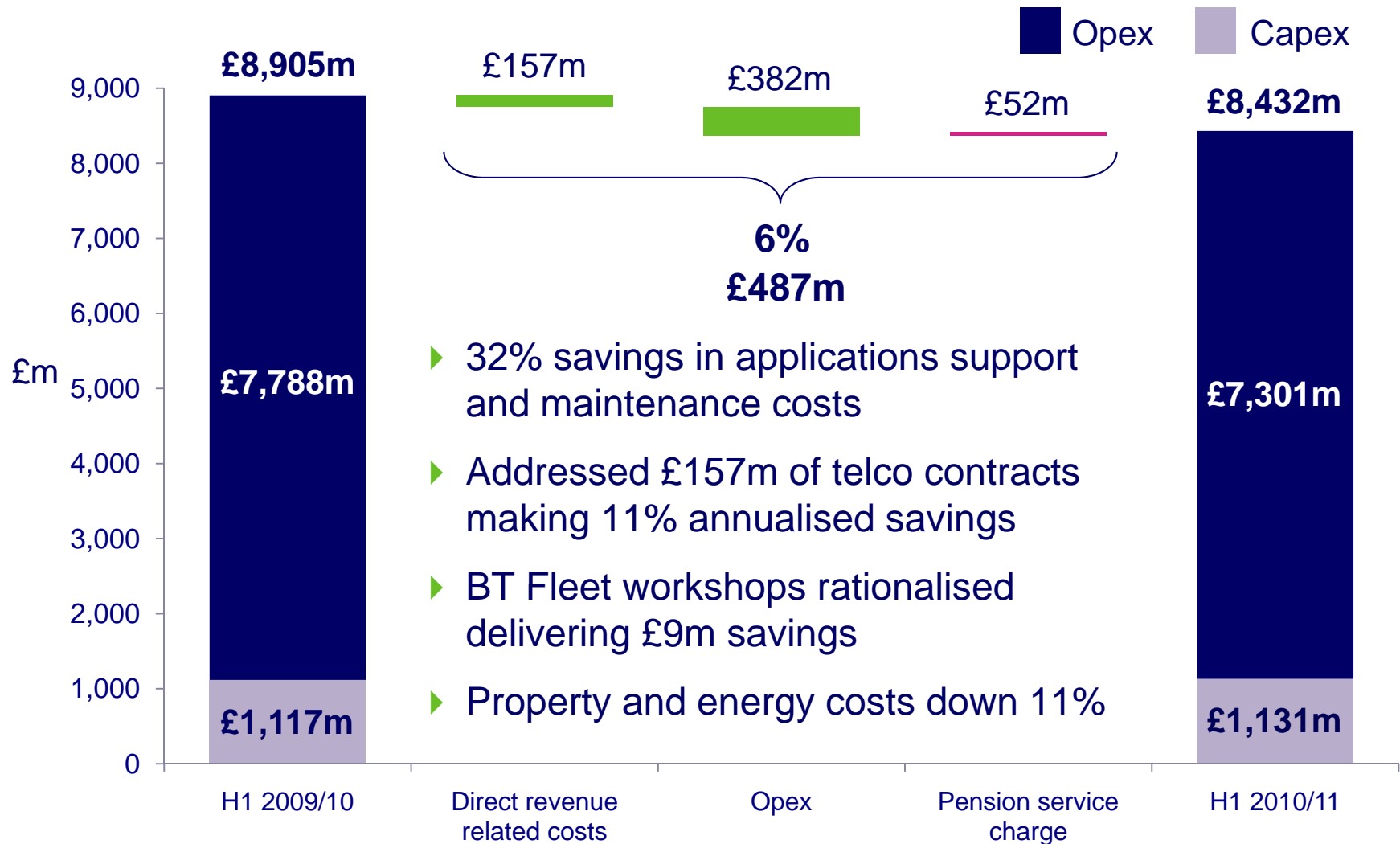
## 2010/11 outlook raised

- ▶ Adjusted EBITDA<sup>1</sup> expected to be around £5.8bn
- ▶ Expect to achieve 2012/13 free cash flow<sup>2</sup> outlook of £2bn in 2010/11
- ▶ Free cash flow<sup>2</sup> in 2011/12 and 2012/13 expected to be above £2bn
- ▶ 2011/12 to 2012/13 outlook otherwise unchanged

<sup>1</sup> before specific items

<sup>2</sup> before pension deficit payment and cash specific items. Specific items are expected to result in cash outflow of around £200m in 2010/11

# H1 2010/11 group cost reductions<sup>1</sup>



**c.£900m opex reduction in 2010/11**





# Fibre roll out costs

- ▶ Currently on track against spending plans
  - by end 2010/11 one quarter of total fibre spend for delivery of one third of footprint
- ▶ Good degree of confidence in future spend
  - contractually committed equipment prices
- ▶ Future spend will be contained within annual c.£2.6bn total capex

# Debt and tax

## Debt

- ▶ Cash and investments of £2.7bn at Sept 2010
  - total debt of £2.5bn maturing by Feb 2011
- ▶ Committed facilities of £2.2bn
- ▶ Reduction in gross debt will lead to lower cash interest payments

## Tax

- ▶ 2010/11 effective rate of 22% due to tax efficiency
- ▶ 2011/12 to 2012/13 we expect effective tax rate to trend towards statutory rate
- ▶ Higher cash tax payments will offset lower interest payments

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Progress made

More to do

# BT Chat for Children Day Children in Need



**Friday 12<sup>th</sup> November 2010**  
BT Chat for Children Day