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**BT Group plc**

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**Q2 2012 results**

**3 November 2011**

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Certain statements in this presentation 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: outlook including improving underlying revenue trends, EBITDA growth, free cash flow, cash specific items, transit revenue and effective tax rate; capital expenditure; progressive dividends; our fibre roll-out programme reach, increased fibre-to-the-cabinet and fibre-to-the-premises speeds, and speed availability; BT Global Services' restructuring programme, operating cash flow, business growth and investment; and increase in our copper lines.

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**Ian Livingston, Chief Executive**

# Q2 2012 group results

			Change
<b>Revenue<sup>1</sup></b>		2%	
- underlying ex transit		0.4%	
<b>EBITDA<sup>1</sup></b>		3%	
<b>Profit before tax<sup>1</sup></b>		15%	
<b>EPS<sup>1</sup></b>		10%	
<b>Free cash flow<sup>1</sup></b>		£95m	
<b>Interim dividend</b>	2.6p	8%	

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

# Q2 2012 line of business overview

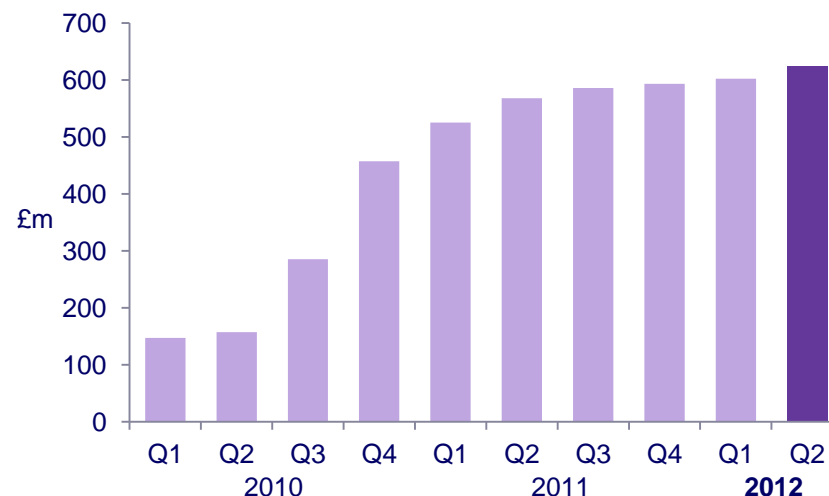
## Global Services

	Q2 2012	Change <sup>1</sup>
Revenue	£2,014m	1%
- underlying ex transit		3%
EBITDA	£159m	15%

### Financials

- ▶ Revenue benefited from milestones including c.£60m of phasing
- ▶ Net operating costs flat
  - up 2% underlying ex transit
  - down 1% ex accelerated milestone costs
- ▶ Operating cash flow £(115)m in H1
  - continue to expect c.£200m FY

### 12 month rolling EBITDA



# Q2 2012 line of business overview

## Global Services

- ▶ 12 month rolling order intake £6.6bn
  - Q2 order intake £1.4bn (Q2 2011: £2.1bn)
    - prior year benefited from large contract extension
  - growth in proportion of new business
- ▶ UK business seeing improving product revenue trends
- ▶ AsiaPac investment progressing well
  - major networked IT services contract in Australian health sector
- ▶ LatAm investment
  - aiming to double business in key markets
- ▶ Network investment
  - Ethernet, MPLS & city fibre
  - lowers costs, creates revenue opportunities



# Q2 2012 line of business overview

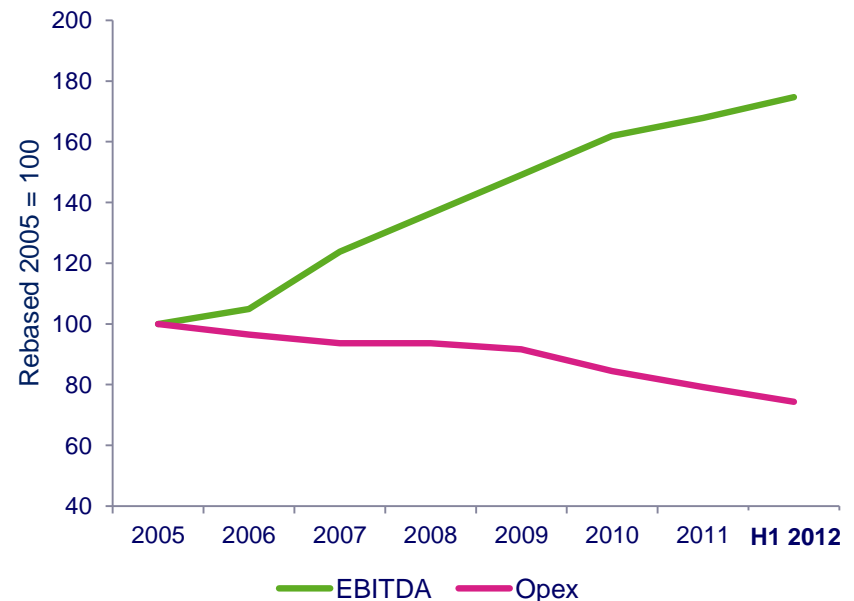
## Retail

	Q2 2012	Change <sup>1</sup>
Revenue	£1,853m	(3)%
EBITDA	£445m	7%

### Financials

- ▶ Revenue down 3%
  - Consumer down 4%
  - Business down 5%
  - pass through of MTR cuts
  - Ireland and Enterprises broadly flat
- ▶ Net operating costs down 6%
  - c.£1.8bn opex savings over last 6½ years

### Cumulative change in EBITDA & opex<sup>2</sup>



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

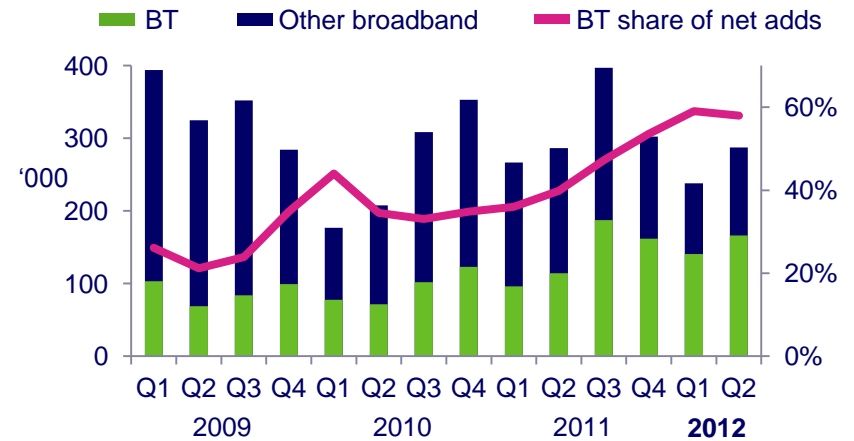
<sup>2</sup> cumulative YoY % change, rebased off 2005

# Q2 2012 line of business overview

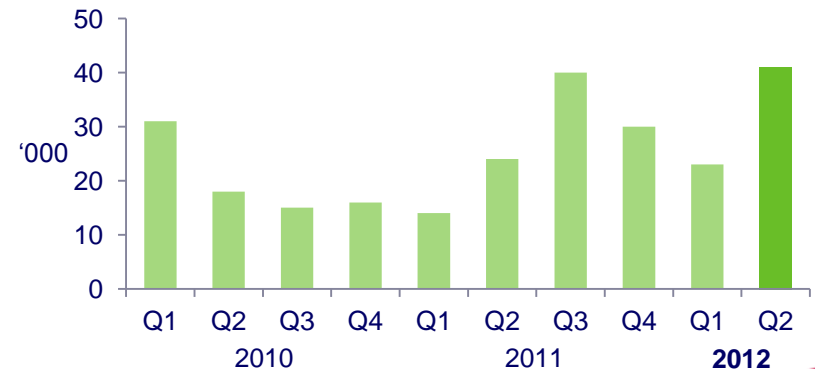
## Retail - Consumer

- ▶ Leading broadband market share
  - 63% share of broadband net adds<sup>1</sup>
  - net adds up 46% YoY
  - Plusnet 13% of BT net adds
  
- ▶ BT Infinity 88,000 net adds
  - currently >300,000 customers
  - Derry~Londonderry first UK city with all fibre cabinets
  
- ▶ BT Vision 41,000 net adds
  - highest for more than 2 years
  
- ▶ Consumer ARPU up 6% YoY to £335

### Broadband market net adds<sup>2</sup>



### BT Vision net adds



<sup>1</sup> DSL and LLU

<sup>2</sup> DSL, LLU and cable

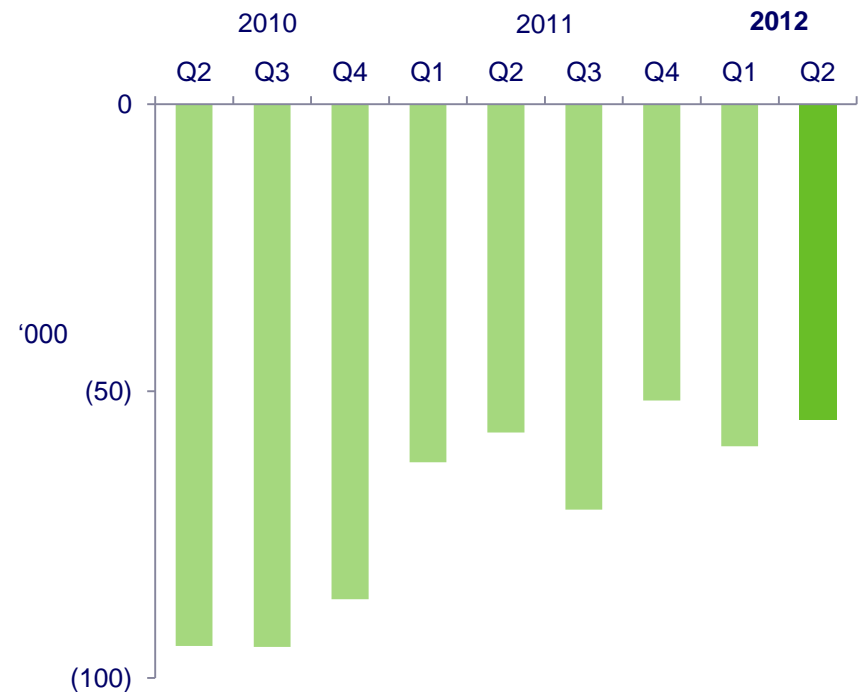


# Q2 2012 line of business overview

## Retail - Business

- ▶ IT market tough
  - reduced contribution from low-margin IT hardware & equipment sales
- ▶ Core metrics improving
  - line loss >40% lower than two years ago
  - call usage<sup>2</sup> broadly flat over last two years
  - broadband net adds c.50% better YoY
- ▶ Profits up in H1

### QoQ movement in business lines<sup>1</sup>



<sup>1</sup> BT Business, including Northern Ireland

<sup>2</sup> BT Business call minutes per working day per line

# Q2 2012 line of business overview

## Wholesale

	Q2 2012	Change <sup>1</sup>
Revenue	£982m	(7)%
- underlying ex transit		0%
EBITDA	£305m	(6)%

### Financials

- ▶ Managed network services growth offset by ongoing impact of migration to LLU
- ▶ Net operating costs down 7%
  - up 4% ex transit
  - impact of changes in product mix and network migration costs expected for rest of year

### Growth indicators

- ▶ Mobile Ethernet circuits continue to grow
  - >1,000 additional MEAS sites added in quarter
  - total base of >11,000 MEAS sites
- ▶ Fixed Ethernet lines more than doubled
- ▶ IP Exchange minutes up more than 60%

# Q2 2012 line of business overview

## Openreach

	Q2 2012	Change <sup>1</sup>
Revenue	£1,280m	4%
EBITDA	£567m	7%

### Financials

- ▶ Revenue up 4%
  - continuing trend from Q1
  - growth in Ethernet, LLU and fibre
- ▶ Net operating costs up 1%
  - efficiency improvements offset by:
    - additional engineering activity
    - leaver costs up £9m

### Growth indicators

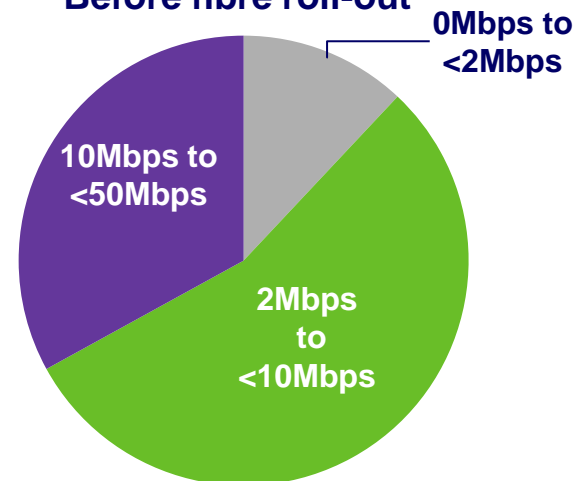
- ▶ Copper lines increased by 11,000
  - fourth consecutive quarter of growth
  - up c.100,000 YoY
- ▶ Over 6m premises passed with fibre
- ▶ Now expect to cover two-thirds of UK premises by the end of 2014
  - one year earlier than planned

# Fibre innovations on speed

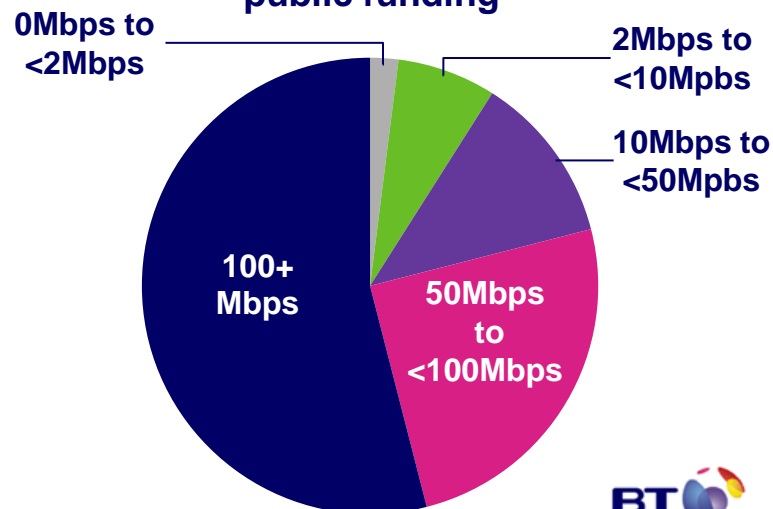
- ▶ FTTC
  - ‘Band Plan’ frequency change agreed, delivering up to 80Mbps in 2012
  - other technologies to enable >100Mbps
- ▶ FTTP
  - wholesale product commercially launched
  - initial speeds of up to 110Mbps
  - up to 300Mbps available from Spring 2012
  - 1Gbps field trial underway
- ▶ TV white space technology may offer further reach and speed improvements in low speed areas

## UK speed availability

Before fibre roll-out<sup>1</sup>






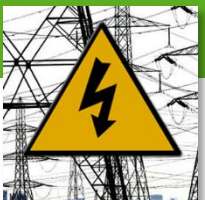


After ‘Band Plan’, vectoring and public funding<sup>1</sup>

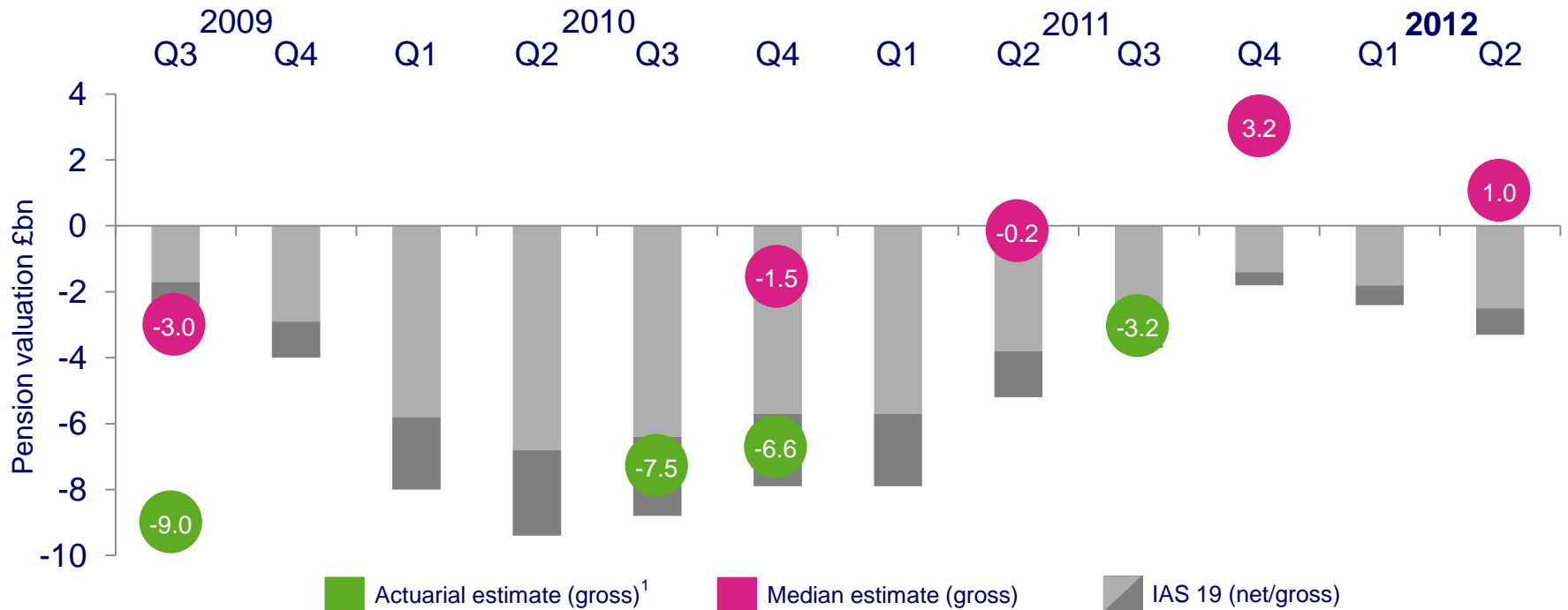


# Fibre innovations on delivery



Soft dig process	Micro-trenching	Mini DSLAM	Conductive concrete	Polymer based plinth	Power supply infrastructure
<ul style="list-style-type: none"> <li>▶ New spade can cut through tarmac</li> <li>▶ Eliminates need for separate civils team</li> </ul>	<ul style="list-style-type: none"> <li>▶ Faster deployment of fibre in environmentally sensitive areas</li> <li>▶ Lower civils costs</li> </ul>	<ul style="list-style-type: none"> <li>▶ Provides cost effective coverage for low density areas and multi-dwelling units</li> </ul>	<ul style="list-style-type: none"> <li>▶ Cost effective option for meeting electrical safety needs</li> <li>▶ Lower civils costs</li> </ul>	<ul style="list-style-type: none"> <li>▶ Faster, lower-cost all-weather deployment</li> <li>▶ Environmentally friendly</li> </ul>	<ul style="list-style-type: none"> <li>▶ Removes need for meter installation visit</li> <li>▶ Reduces deployment times by two weeks</li> </ul>
					

# Pensions



► At 30 September 2011

- IAS 19 £(3.3)bn gross of tax, £(2.5)bn net of tax
- Median estimate £1.0bn surplus
  - based on 2.7% real rate of return

<sup>1</sup> Actuarial estimates based on same approach as December 2008 triennial valuation. Q3 2011 adjusted for the deficit payment of £0.5bn in March 2011

# Outlook 2012 & 2013

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## Underlying revenue ex transit<sup>1</sup>

- ▶ 2012 – down 2% to flat
  - ▶ 2013 – to grow up to 2%
- 

## Adjusted EBITDA<sup>1</sup>

- ▶ 2012 – growth
  - ▶ 2013 – above £6bn
- 

## Free cash flow<sup>2</sup>

- ▶ Above 2011 level in 2012 and 2013
- 

Performance reinforces outlook

<sup>1</sup> before specific items

15 <sup>2</sup> before specific items and pension deficit payments



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**Tony Chanmugam, Group Finance Director**



# Income statement<sup>1</sup>

£m	Q2 2012	Change	Key points
<b>Revenue</b>	<b>4,894</b>	(2)%	▶ transit down £127m
- underlying ex transit		0.4%	▶ phasing of milestones
<b>EBITDA</b>	<b>1,495</b>	3%	▶ reflects continued cost savings
<b>Operating profit</b>	<b>742</b>	4%	
<b>Profit before tax</b>	<b>570</b>	15%	▶ improved operating performance & lower finance expense
Tax	(138)	(41)%	▶ 24.1% effective tax rate
<b>Adjusted EPS</b>	<b>5.6p</b>	10%	▶ higher operating profit & lower finance expense

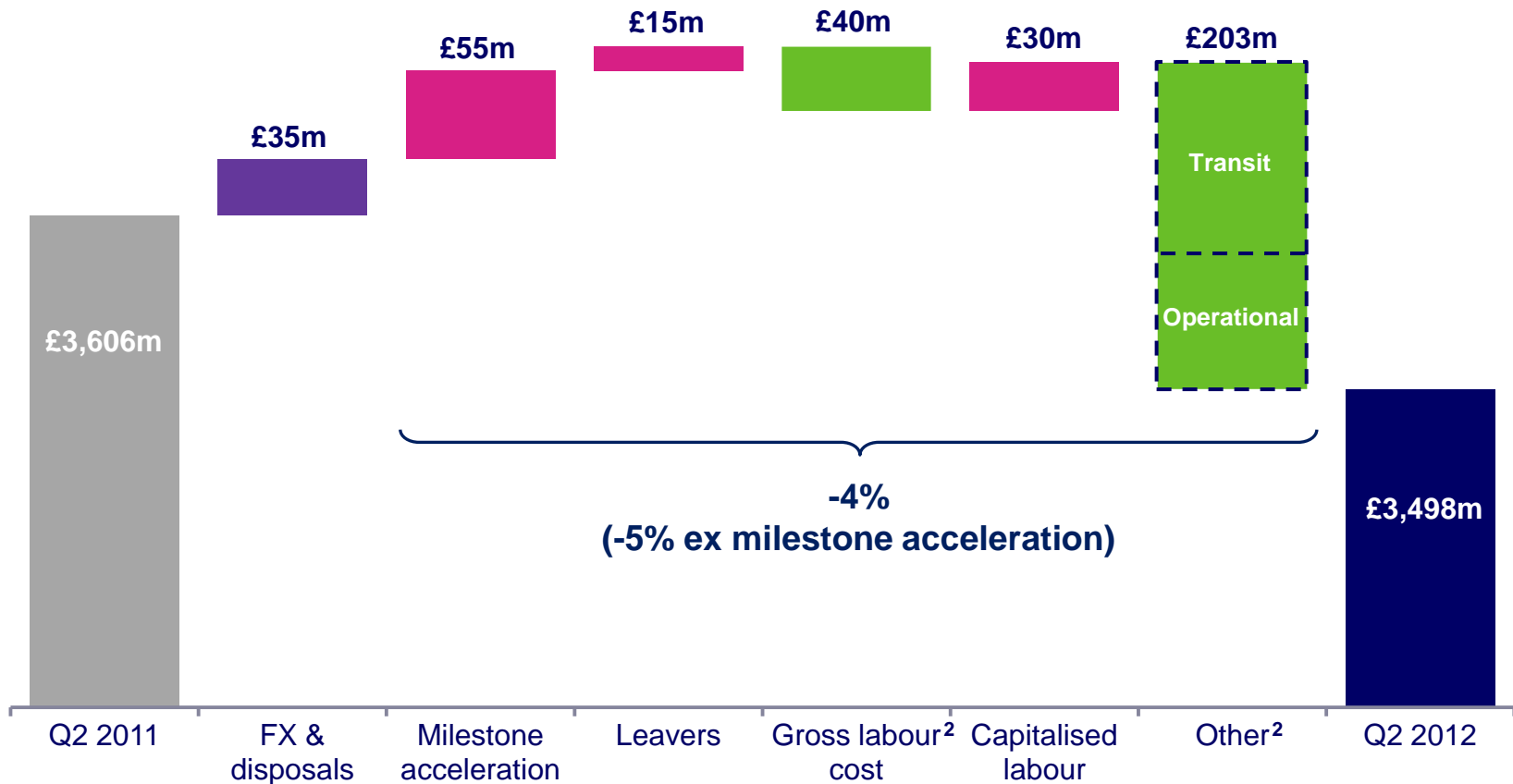
# Free cash flow

£m	Q2 2012	Change	Key points
<b>EBITDA<sup>1</sup></b>	<b>1,495</b>	43	
Capex	(618)	(16)	▶ c.£2.6bn FY
Interest & tax	(167)	6	▶ lower debt, tax slightly higher
Working capital & other	(39)	62	▶ reflects timing of receipts
<b>Free cash flow before specifics</b>	<b>671</b>	95	▶ outlook - to be above 2011 level in 2012
Specific items	(42)	(1)	▶ GS restructuring & property rationalisation
<b>Free cash flow after specifics</b>	<b>629</b>	94	
<b>Net debt</b>	<b>8,317</b>	387	▶ cash & investments of £1.0bn

# Specific items

£m	Q2 2012	Key points
Revenue	(410)	▶ retrospective German regulatory ruling
Other operating income	(19)	▶ loss on disposal of subsidiary
Operating items	362	▶ German ruling (£410m credit), GS restructuring & property rationalisation
Net finance income	49	▶ net interest on pensions
<b>Net charge before tax</b>	<b>(18)</b>	
Tax	81	▶ credit on re-measurement of deferred tax
<b>Net credit after tax</b>	<b>63</b>	
<b>Cash specific items</b>	<b>(42)</b>	▶ expected to be c.£180m FY

# Q2 2012 cost transformation



**£377m opex<sup>1</sup> reduction in H1**

<sup>1</sup> before specific items, depreciation & amortisation and other operating income

<sup>2</sup> adjusted for labour related costs of £23m in Q2 which were treated as Other costs in 2011

# Financial strategy and dividend

2011

2013

Improve revenue trends

Grow EBITDA

Grow free cash flow

Invest in  
business

Reduce net  
debt

Support  
pension fund

Progressive  
dividends

Interim dividend 2.6p up 8%

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**Q&A**