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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% |  |
| EBITDA¹ | £1,399m | 6% |  |
| EPS¹ | 4.4p | 16% |  |
| Free cash flow | £415m | up £537m |  |
| Net debt | £8,879m | down £1,638m |  |













¹ before specific items

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Q1 2010/11 line of business summary results

| | Global Services | Retail | Wholesale | Openreach |
|----------------------------------|--|--|--|---|
| Adjusted revenue ¹ |  3% |  7% |  6% |  4% |
| Adjusted EBITDA ² |  110% |  2% |  flat |  8% |
| Operating cash flow ³ |  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 adds²
- ▶ 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)% |
| <ul style="list-style-type: none">- no significant impact from FX- MTR and transit impact c.1%- reflects expected trend, improvement in H2 | | | |
| ▶ EBITDA¹ | 1,399 | 1,326 | 6% |
| <ul style="list-style-type: none">- operating costs² reduced by £291m- Q2 trend lower but improves in H2 due to profile of investments | | | |

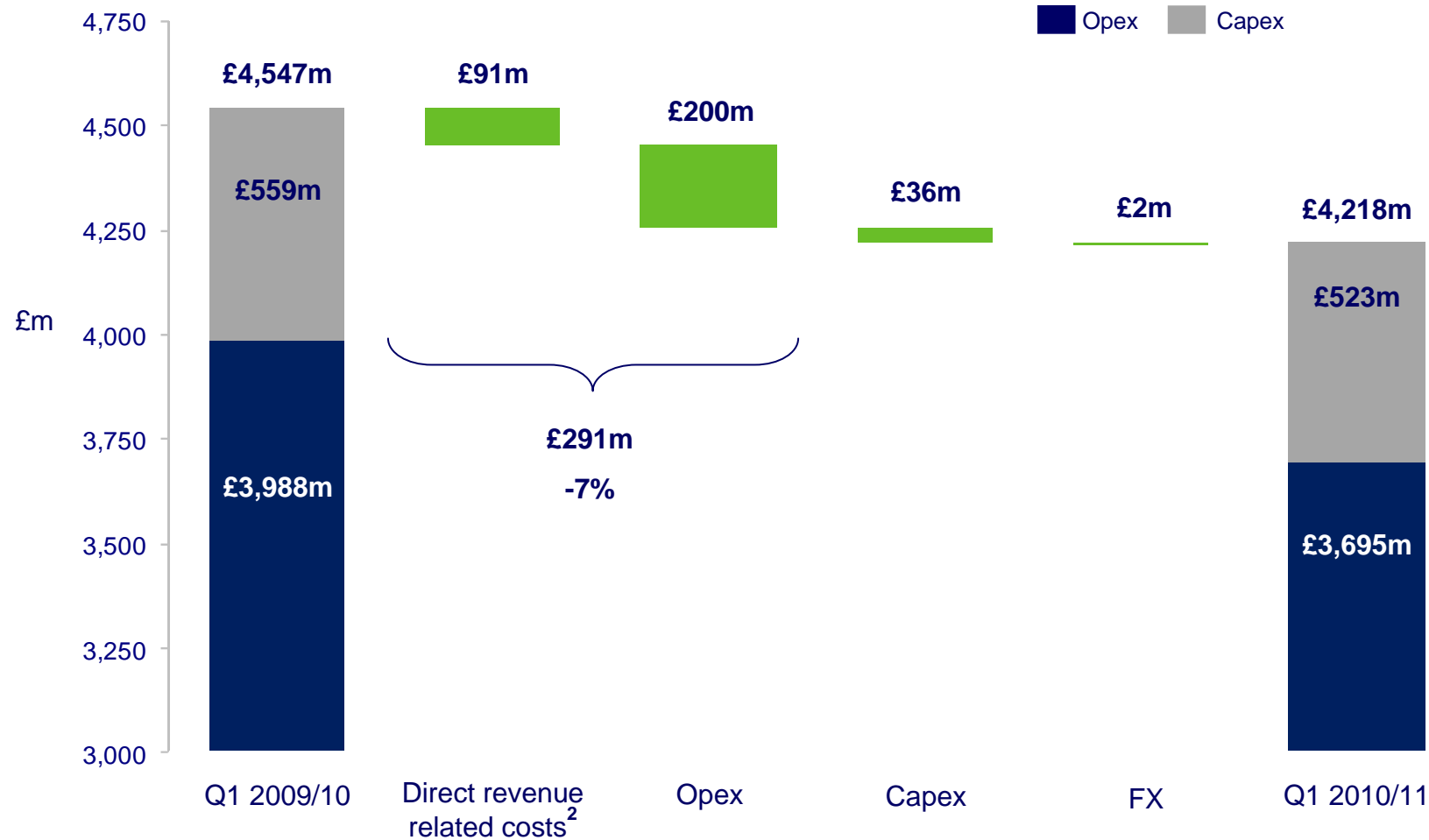
¹ before specific items

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 reductions¹



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 savings¹ | c.£900m |
| EBITDA² | in line with 2009/10 |
| Free cash flow³ | 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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