

A better business



A better future

BT Group plc

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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Bringing it all together

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BT Group plc

Ian Livingston, Chief Executive

Q2 2012 group results

		Change	
Revenue¹		2%	
- underlying ex transit		0.4%	
EBITDA¹		3%	
Profit before tax¹		15%	
EPS¹		10%	
Free cash flow¹		£95m	
Interim dividend	2.6p	8%	

4 ¹ before specific items

Q2 2012 line of business overview

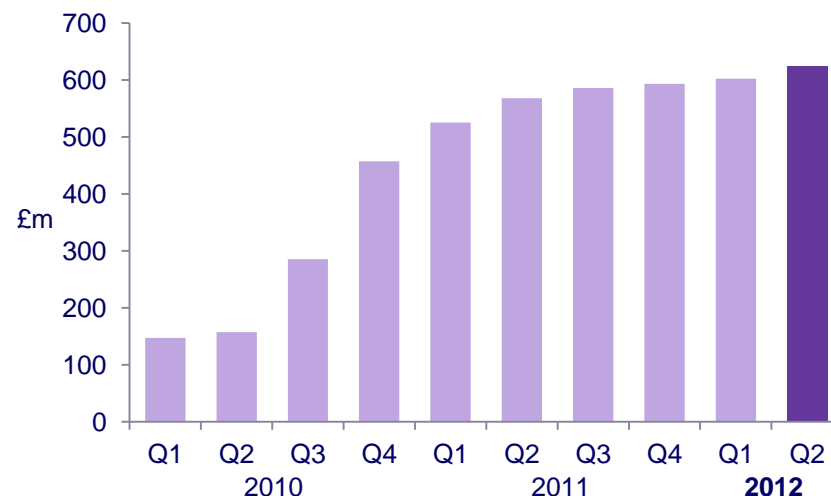
Global Services

	Q2 2012	Change ¹
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

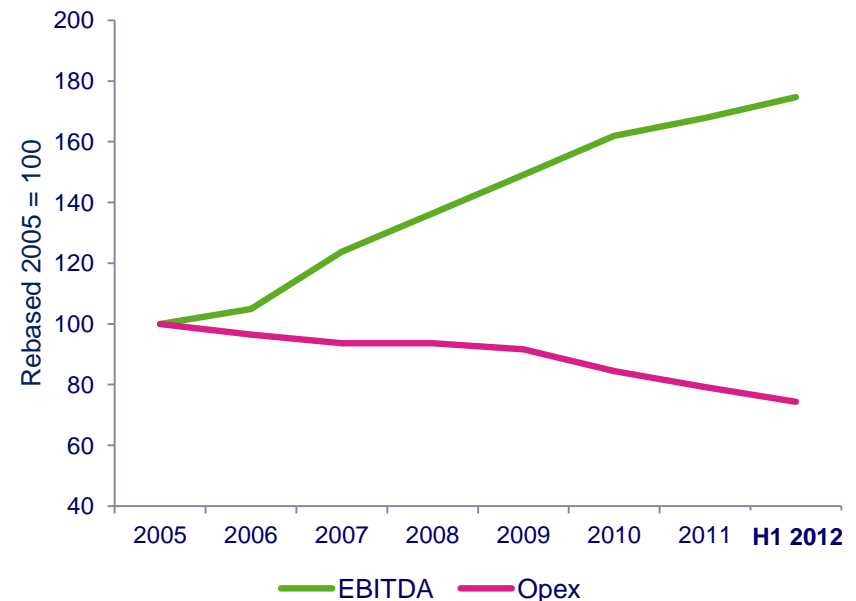
Retail

	Q2 2012	Change ¹
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 & opex²



¹ prior year restated for the impact of customer account moves

² cumulative YoY % change, rebased off 2005

Q2 2012 line of business overview

Retail - Consumer

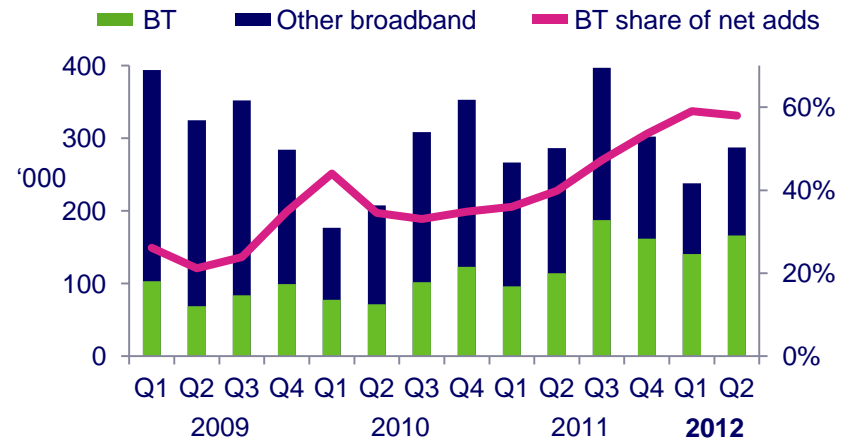
- ▶ Leading broadband market share
 - 63% share of broadband net adds¹
 - net adds up 46% YoY
 - Plusnet 13% of BT net adds

- ▶ BT Infinity 88,000 net adds
 - currently >300,000 customers
 - Derry~Londonderry first UK city with all fibre cabinets

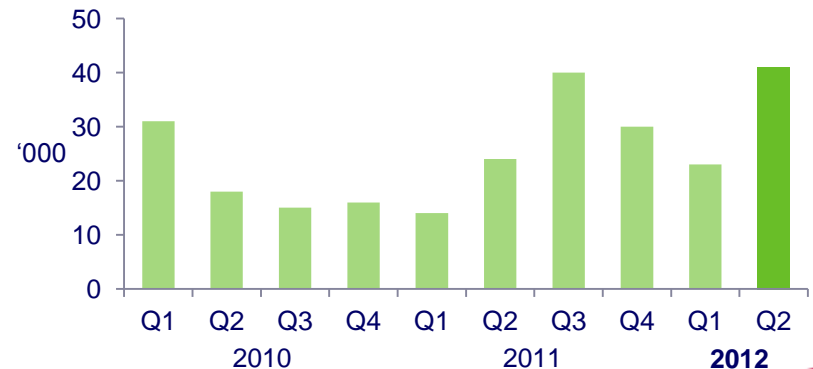
- ▶ BT Vision 41,000 net adds
 - highest for more than 2 years

- ▶ Consumer ARPU up 6% YoY to £335

Broadband market net adds²



BT Vision net adds



¹ DSL and LLU

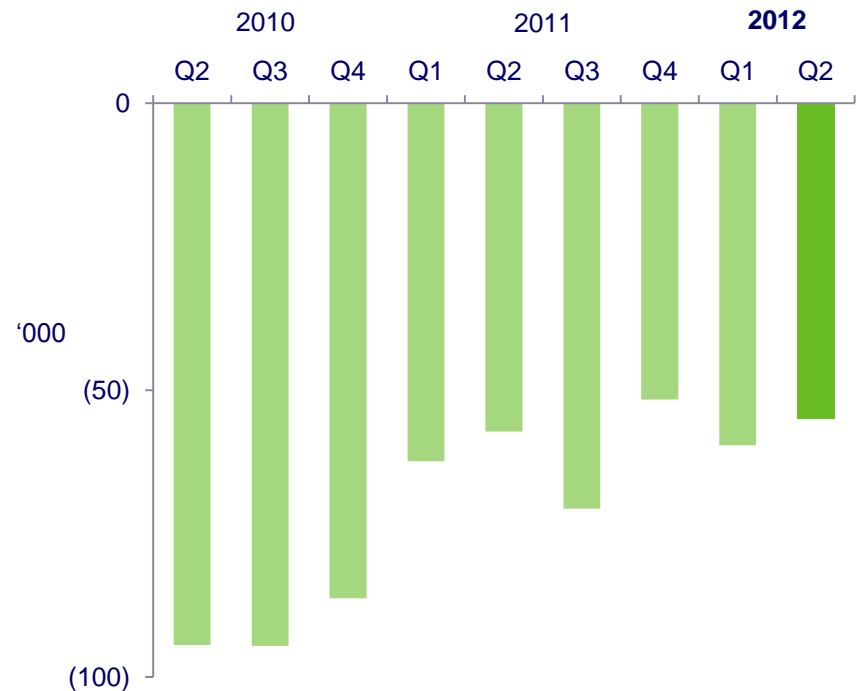
² DSL, LLU and cable

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 usage² broadly flat over last two years
 - broadband net adds c.50% better YoY
- ▶ Profits up in H1

QoQ movement in business lines¹



¹ BT Business, including Northern Ireland

² BT Business call minutes per working day per line

Q2 2012 line of business overview

Wholesale

	Q2 2012	Change ¹
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 ¹
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

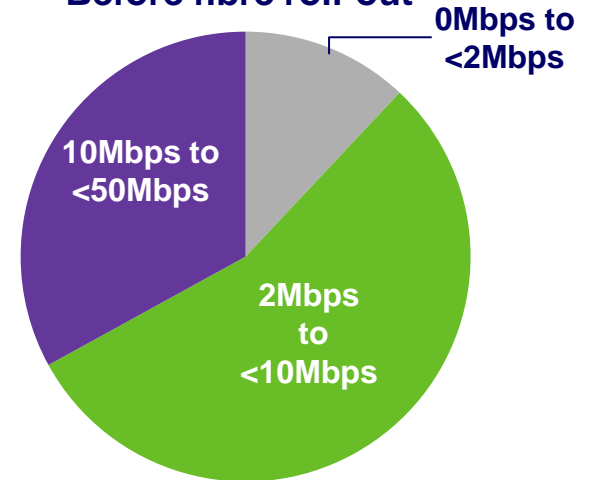
- ▶ Copper lines increased by 11,000
 - fourth consecutive quarter of growth
 - up c.100,000 YoY
- ▶ Over 6m premises passed with fibre
- ▶ Now expect to cover two-thirds of UK premises by the end of 2014
 - one year earlier than planned

Fibre innovations on speed

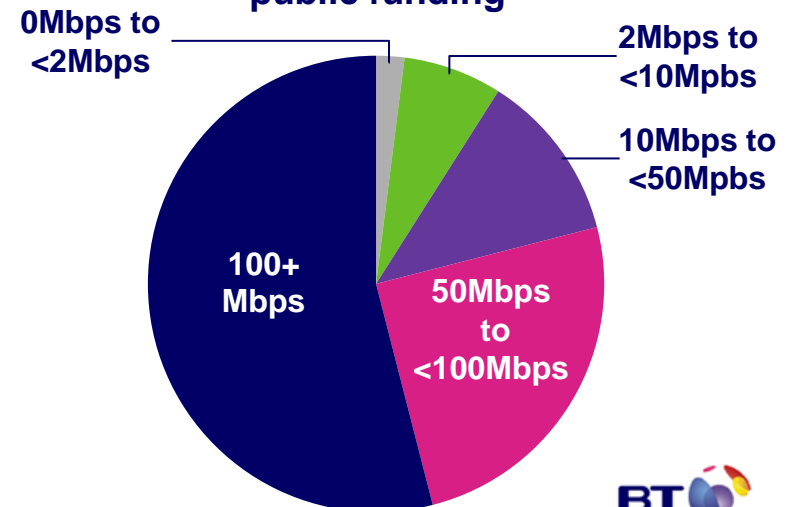
- ▶ FTTC
 - ‘Band Plan’ frequency change agreed, delivering up to 80Mbps in 2012
 - other technologies to enable >100Mbps
- ▶ FTTP
 - wholesale product commercially launched
 - initial speeds of up to 110Mbps
 - up to 300Mbps available from Spring 2012
 - 1Gbps field trial underway
- ▶ TV white space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

UK speed availability

Before fibre roll-out¹









After ‘Band Plan’, vectoring and public funding¹

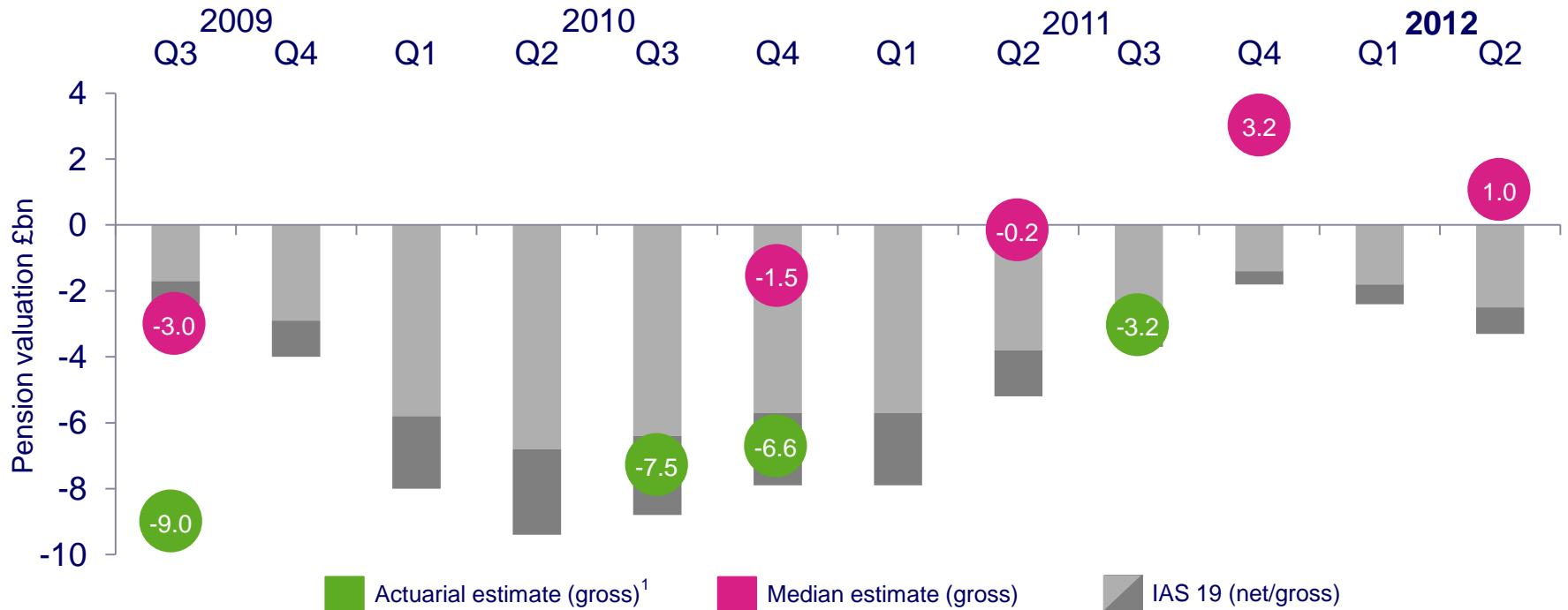


Fibre innovations on delivery



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

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

¹ 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

Underlying revenue ex transit¹

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

Adjusted EBITDA¹

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

Free cash flow²

- ▶ Above 2011 level in 2012 and 2013
-

Performance reinforces outlook

¹ before specific items

15 ² before specific items and pension deficit payments

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Tony Chanmugam, Group Finance Director

Income statement¹

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

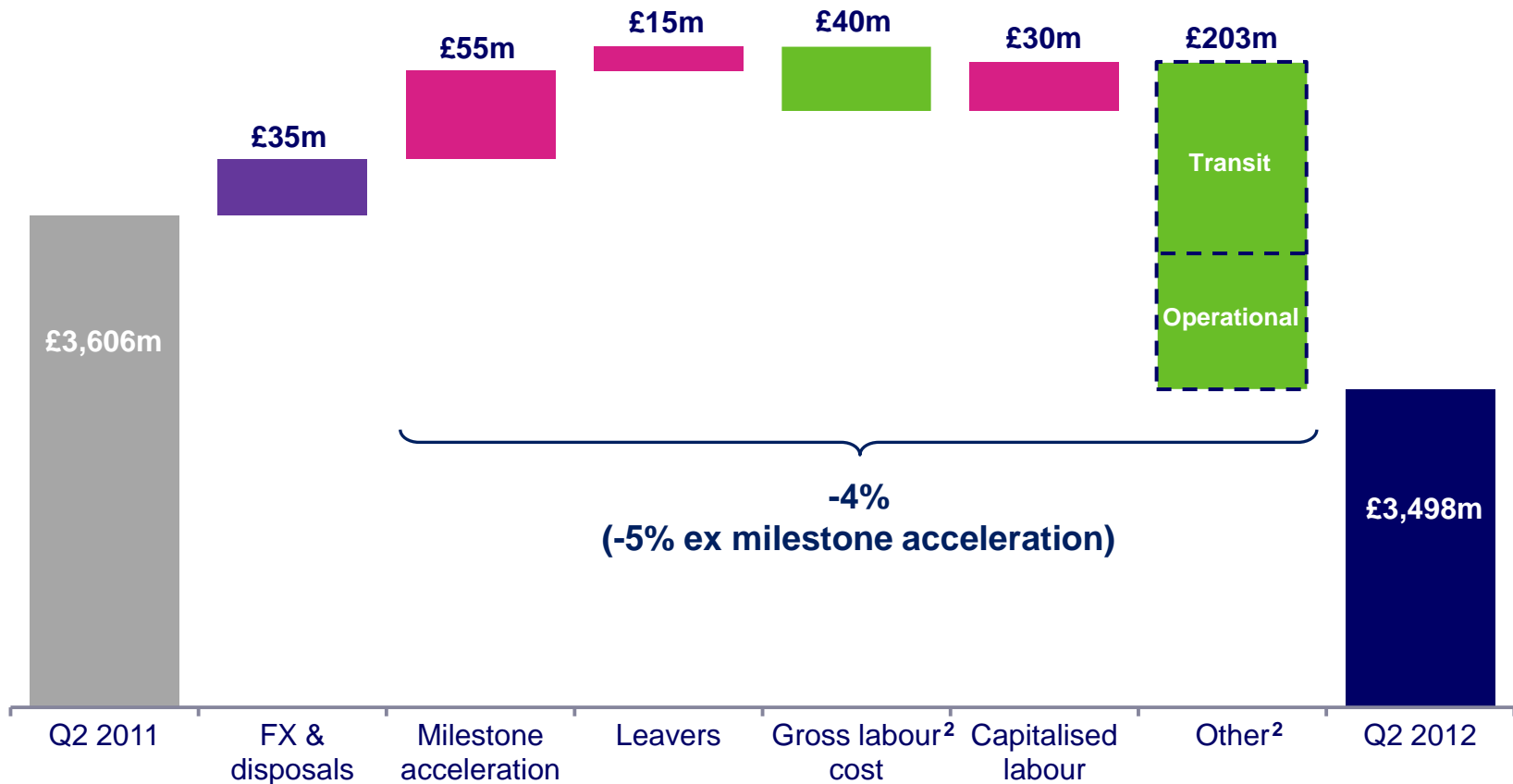
Free cash flow

£m	Q2 2012	Change	Key points
EBITDA¹	1,495	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
Free cash flow before specifics	671	95	▶ outlook - to be above 2011 level in 2012
Specific items	(42)	(1)	▶ GS restructuring & property rationalisation
Free cash flow after specifics	629	94	
Net debt	8,317	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
Net charge before tax	(18)	
Tax	81	▶ credit on re-measurement of deferred tax
Net credit after tax	63	
Cash specific items	(42)	▶ expected to be c.£180m FY

Q2 2012 cost transformation



£377m opex¹ reduction in H1

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

² 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