

**BT Group plc**

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**Q3 2009/10 results**

**11 February 2010**



# Forward-looking statements caution

Certain statements in this results release 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: revenue, capital expenditure, operating cost reductions, EBITDA, free cash flow, net debt and dividends; the BT pension scheme; BT Global Services' continued delivery of cost savings; and roll out of fibre access and super-fast broadband.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the BT Global Services' revised operating model and restructuring plan not being achieved; completion of the pension fund actuarial valuation; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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**Ian Livingston**



# Q3 2009/10 group results

## Revenue

|   |            |            |   |
|---|------------|------------|---|
| reported                                  | £5,198m    | 4%         |    |
| underlying                                |            | 5%         |    |
| <hr/>                                     |            |            |   |
| <b>Adjusted EBITDA<sup>1</sup></b>        | £1,444m    | 11%        |    |
| <hr/>                                     |            |            |   |
| <b>Total underlying costs<sup>2</sup></b> | down £645m | 13%        |    |
| <hr/>                                     |            |            |   |
| <b>Adjusted EPS<sup>1</sup></b>           | 4.6p       | 53%        |    |
| <hr/>                                     |            |            |   |
| <b>Free cash flow<sup>3</sup></b>         | £305m      | up £337m   |   |
| <hr/>                                     |            |            |   |
| <b>Net debt</b>                           | £10,112m   | down £948m |  |
| <hr/>                                     |            |            |   |

<sup>1</sup> before specific items, leaver costs, net interest on pensions and BT Global Services contract and financial review charges of £336m in Q3 2008/9

<sup>2</sup> underlying operating costs and capital expenditure, excluding BT Global Services contract and financial review charges of £336m in Q3 2008/9

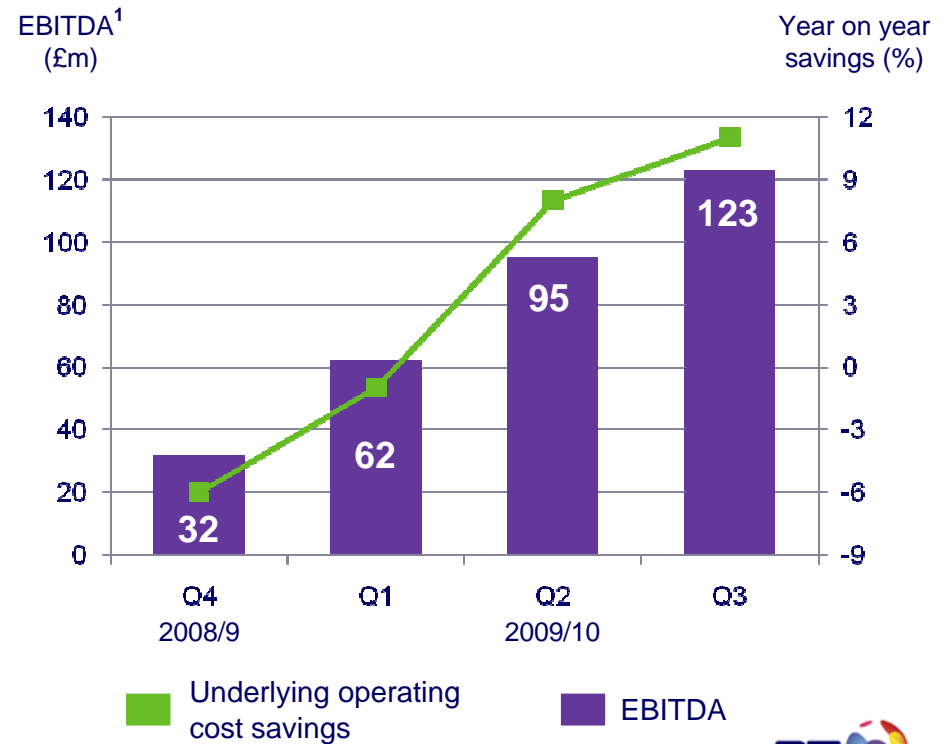
<sup>3</sup> before pension deficit payment of £525m but after the cash flows related to specific items

# Q3 2009/10 line of business overview

## Global Services

|                     | Q3 2009/10 | Change   |
|---------------------|------------|----------|
| Revenue             | £2,118m    | (3)%     |
| EBITDA <sup>1</sup> | £123m      | up £116m |

- ▶ Underlying revenue down 5%
- ▶ Underlying operating costs down 11%
- ▶ Sequential EBITDA<sup>1</sup> improvement
- ▶ Order intake £1.6bn in quarter
- ▶ Appointment of Jeff Kelly as CEO



## Q3 2009/10 line of business overview

### Retail

|         | Q3 2009/10 | Change |
|---------|------------|--------|
| Revenue | £2,061m    | (5)%   |
| EBITDA  | £464m      | 7%     |

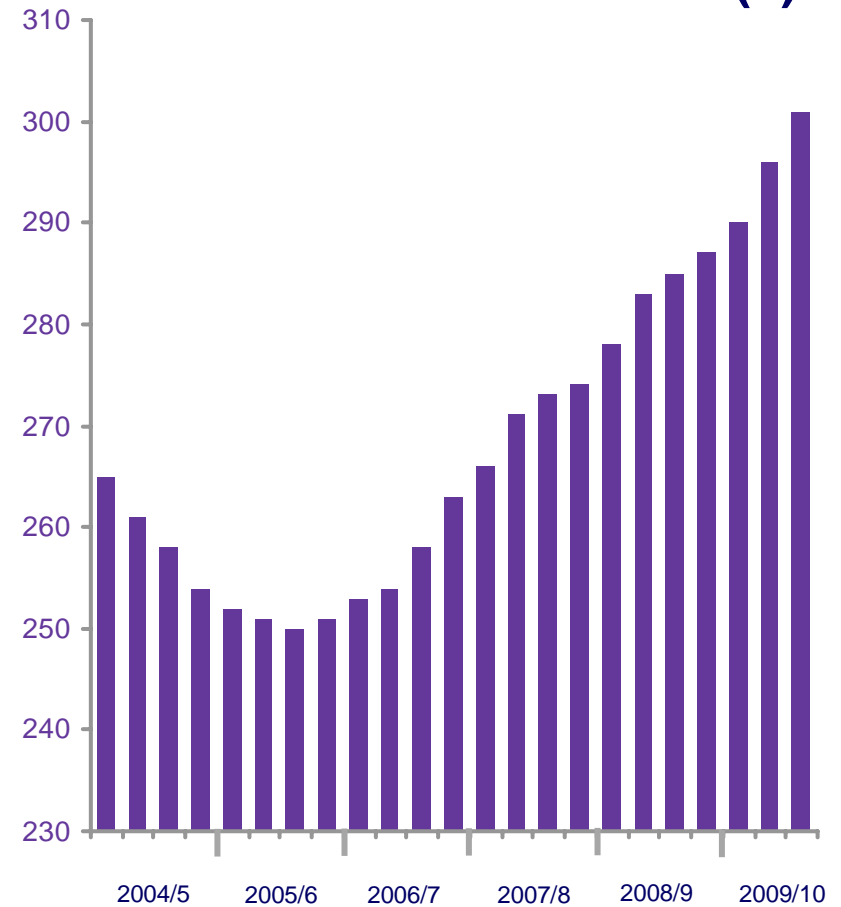
- ▶ Consumer down 4%
- ▶ Business down 8%, SME market tough
- ▶ Net operating costs down 9%
- ▶ EBITDA in line with guidance

# Q3 2009/10 line of business overview

## Retail

- ▶ 42% share of broadband net adds at 102,000
  - over 5 million Retail broadband customers
- ▶ Consumer ARPU up £5 to £301
- ▶ BBC Trust given provisional approval to Project Canvas
- ▶ 1m WiFi hotspots now enabled

Annual consumer ARPU (£)



# Retail



- ▶ Option 1
  - 40Mbps download, 2Mbps upload
  - £19.99 p.m.
  - 20Gb monthly usage allowance
- ▶ Option 2
  - 40Mbps download, 10Mbps upload
  - £24.99 p.m.
  - unlimited usage allowance





## Q3 2009/10 line of business overview

### Wholesale

|         | Q3 2009/10 | Change |
|---------|------------|--------|
| Revenue | £1,092m    | (8)%   |
| EBITDA  | £321m      | 0%     |

- ▶ Revenue decline reflects expected fall in MTR
- ▶ Net operating costs down 11%
- ▶ Further new long term contracts signed
- ▶ ADSL2+ >50% availability
- ▶ Wholesale NGA product introduced

## Q3 2009/10 line of business overview

### Openreach

|         | Q3 2009/10 | Change |
|---------|------------|--------|
| Revenue | £1,292m    | (3)%   |
| EBITDA  | £513m      | (4)%   |

- ▶ External revenue up 19% ➡ internal revenue down 8%
  - continued migration of CPs to LLU and WLR
  - significantly lower Ethernet pricing for industry
- ▶ Net operating costs down 2%
- ▶ High comparative EBITDA last year
  - EBITDA up sequentially over Q2

# NGA update

- ▶ January 2010                      initial market deployment
- ▶ End 2010                              4m premises passed
- ▶ Summer 2012                      10m premises passed  
   - c.25% FTTP
- ▶ FTTP                                      trials commenced
- ▶ Public-private sector investment in Northern Ireland  
    – extends super-fast broadband footprint

# NGA exchanges – late Summer 2010 (2.5m homes)

## Phase 1

Muswell Hill  
Whitchurch  
Glasgow Halfway

## Phase 2

Belfast Balmoral  
Basingstoke  
Bury  
Caerphilly  
Calder Valley  
Canonbury  
Cardiff  
Chelmsford  
Chingford  
Dean  
Didsbury  
Edmonton  
Enfield  
Failsworth  
Glasgow Western  
Halifax  
Heaton Moor  
Hemel Hempstead  
Leagrave  
Luton  
Oldham  
Pudsey  
Rusholme

Taffs Well  
Thamesmead  
Tottenham  
Watford  
Woolwich

## Phase 3

Altrincham  
Armley  
Ashton-Under-Lyne  
Barnet  
Barry  
Berkhamsted  
Billericay  
Birmingham,  
Northern  
Brentwood  
Bristol North  
Bristol West  
Castleford  
Cheetham  
Chester-Le-Street  
Chorlton  
Dartford  
Denton  
Downend  
Durham  
East Herrington  
Edinburgh  
- Corstorphine

Edinburgh  
- Craiglockhart  
Elstree  
Eltham  
Fallings Park  
Glasgow Bridgeton  
Glasgow Giffnock  
Glossop  
Great Barr  
Greenwich  
Hainault  
Headingley  
Hetton-Le-Hole  
Hinckley  
Hoddesdon  
Hornchurch  
Hyde  
Ingrebourne  
Lea Valley  
Leamore  
Lisburn  
Loughton  
Low Moor  
Manchester East  
Moss Side  
New Southgate  
Nuneaton  
Penarth  
Ponders End  
Pontefract

Prestwich  
Shipley  
Sidcup  
Slade Green  
St. Albans  
Stalybridge  
Stamford Hill  
Stanford-Le-Hope  
Swinton  
Tettenhall  
Urmston  
Walkden  
Walsall  
Waltham Cross  
Wednesbury  
Wilmslow  
Woodford

## Phase 4a

Albert Dock  
Andover  
Aylesbury  
Beauchief  
Bicester  
Blunsdon  
Bothwell  
Braintree  
Bramhall

Brighton Hove  
Caversham  
Chandlers Ford  
Chippenham  
Coalville  
Congleton  
Crowthorne  
Dalgety Bay  
Didcot  
Dunfermline  
Earley  
Earlsdon  
Eastleigh  
Fair Oak  
Greenford  
Guiseley  
Harpenden  
Hednesford  
Henley On Thames  
Kenilworth  
Langley  
Livingston Station  
Llanedeyrn  
Llanishen  
Locksheath  
Llanishen  
Locksheath  
Lofthouse Gate

Maidenhead  
Merton Park  
Mile End  
Mitcham  
Newport Pagnell  
Newton Mearns  
Ortons  
Parsons Green  
Penicuik  
Portishead  
Portsmouth Central  
Putney  
Ranmoor  
Reading South  
Sittingbourne  
Skyport  
Solihull  
Stoneygate  
Sutton Cheam  
Tamworth  
Toothill  
Wanstead  
Warwick  
Willaston  
Wimbledon  
Wokingham  
Worle

# BT pension scheme – triennial funding valuation

- ▶ Funding valuation agreed with the Trustee
- ▶ Now being submitted to Regulator for formal review
  - initial view – substantial concerns with certain features
- ▶ Prudent actuarial funding deficit of £9.0bn
- ▶ Valuation performed for Trustee by independent actuary
- ▶ BT “median estimate” approach values the deficit at c.£3bn
- ▶ 17 year deficit recovery plan
  - Years 1 to 3 – payments of £525m p.a.
  - Year 4 – payment of £583m, increasing by 3% p.a.
  - Years 4 to 17 – payments equivalent to £533m p.a. in real terms

# BT pension scheme – triennial funding valuation

|                              | £bn           |
|------------------------------|---------------|
| Market value of assets       | 31.2          |
| Present value of liabilities | <u>(40.2)</u> |
| Funding deficit              | (9.0)         |

## Key assumptions

- ▶ Real discount rate – equivalent to an overall rate of 2.5%
- ▶ Inflation – increasing to 3.0% over the long term
- ▶ Mortality – increased by 2 years
- ▶ Does not reflect full expected benefits from pension review changes implemented from 1 April 2009
- ▶ Asset values have increased by c.10% in year to 31 December 2009

## BT pension scheme – other features

- ▶ Net distributions trigger – if net distributions to shareholders exceed total pension contributions (i.e. c.£2.4bn) in three years to 31 December 2011 an additional equal matching contribution to the scheme is triggered
- ▶ Net cash proceeds from disposals less acquisitions trigger – if greater than £1bn in any 12 month period to 31 December 2011, additional contribution to the scheme of 1/3<sup>rd</sup> of net proceeds is triggered
- ▶ Negative pledge – comfort that future creditors will not be granted superior security to the scheme, subject to £1.5bn threshold

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**Tony Chanmugam**





# Income statement

| £m                                  | Q3 2009/10   | Q3 2008/9 <sup>1</sup> | Change      |
|-------------------------------------|--------------|------------------------|-------------|
| <b>Revenue</b>                      | <b>5,198</b> | <b>5,437</b>           | <b>(4)%</b> |
| POLOs                               | 1,066        | 1,094                  |             |
| Revenue (net)                       | 4,132        | 4,343                  |             |
| <b>EBITDA<sup>2</sup></b>           | <b>1,444</b> | <b>1,301</b>           | <b>11%</b>  |
| Depreciation & amortisation         | (754)        | (723)                  |             |
| <b>Operating profit<sup>2</sup></b> | <b>690</b>   | <b>578</b>             | <b>19%</b>  |

# Income statement

| £m   | Q3 2009/10  | Q3 2008/9 <sup>1</sup> | Change      |
|--|-------------|------------------------|-------------|
| <b>Operating profit<sup>2</sup></b>        | <b>690</b>  | <b>578</b>             | <b>19%</b>  |
| Net finance expense (ex. pension interest) | (223)       | (259)                  |             |
| Associates & JVs                           | (1)         | 16                     |             |
| <b>Profit before tax<sup>2</sup></b>       | <b>466</b>  | <b>335</b>             | <b>39%</b>  |
| Contract & financial review charges        | -           | (336)                  |             |
| Leaver costs                               | (58)        | (33)                   |             |
| Pension interest                           | (69)        | 79                     |             |
| Specific items (before tax)                | (130)       | 36                     |             |
| Reported profit before tax                 | 209         | 81                     |             |
| Tax  | (31)        | (19)                   |             |
| Profit for the period                      | 178         | 62                     |             |
| <b>Reported EPS</b>                        | <b>2.3p</b> | <b>0.8p</b>            | <b>188%</b> |
| <b>Adjusted<sup>2</sup> EPS</b>            | <b>4.6p</b> | <b>3.0p</b>            | <b>53%</b>  |

18 <sup>1</sup> post Q1 restatements  
<sup>2</sup> before specific items, leaver costs, net interest on pensions and contract and financial review charges of £336m in Q3 2008/09



# Free cash flow

| £m                                | Q3 2009/10      | Q3 2008/9 <sup>1</sup> | Change     |
|-----------------------------------|-----------------|------------------------|------------|
| <b>EBITDA<sup>2</sup></b>         | <b>1,444</b>    | <b>1,301</b>           | <b>143</b> |
| Leavers                           | (58)            | (33)                   | (25)       |
| Specific items                    | (130)           | 36                     | (166)      |
| EBITDA                            | 1,256           | 1,304                  | (48)       |
| Interest                          | (314)           | (305)                  | (9)        |
| Tax                               | (44)            | (111)                  | 67         |
| Capex                             | (548)           | (789)                  | 241        |
| Working capital/Other             | (45)            | (131)                  | 86         |
| <b>Free cash flow<sup>3</sup></b> | <b>305</b>      | <b>(32)</b>            | <b>337</b> |
| <b>Net debt</b>                   | <b>(10,112)</b> | <b>(11,060)</b>        | <b>948</b> |

<sup>1</sup> post Q1 restatements

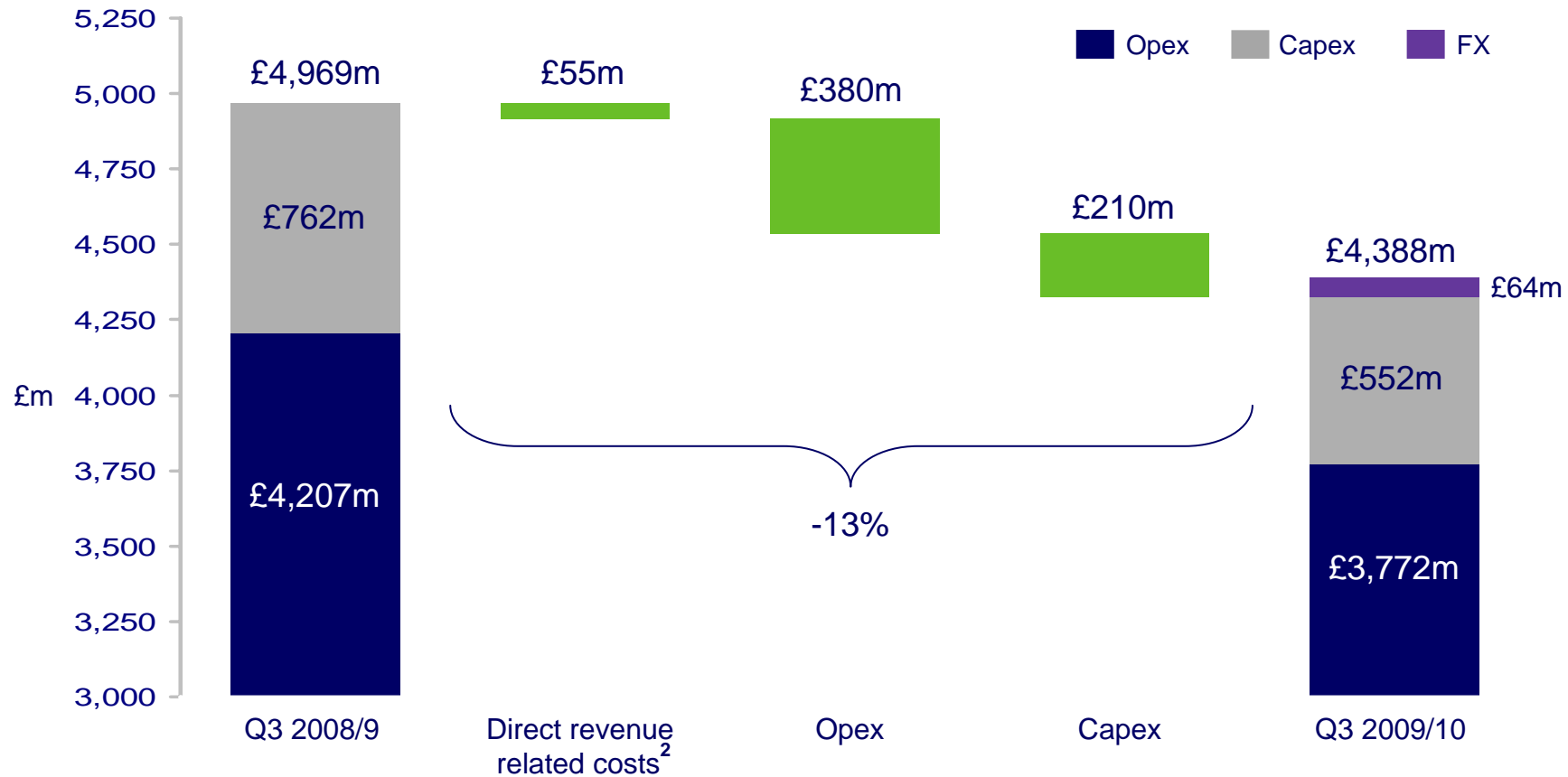
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<sup>3</sup> before pension deficit payment of £525m but after the cash flows related to specific items

## Operating cash flow by line of business

| £m                           | Q3 2009/10 | Q3 2008/9   | Change     |
|------------------------------|------------|-------------|------------|
| Global Services              | (31)       | (267)       | 236        |
| Retail                       | 399        | 285         | 114        |
| Wholesale                    | 208        | 110         | 98         |
| Openreach                    | 333        | 286         | 47         |
| LoB operating free cash flow | 909        | 414         | 495        |
| Other (tax, interest etc.)   | (474)      | (482)       | 8          |
| Specific items               | (130)      | 36          | (166)      |
| <b>Group free cash flow</b>  | <b>305</b> | <b>(32)</b> | <b>337</b> |

# Q3 2009/10 group cost reductions<sup>1</sup>



- ▶ YTD opex savings of £900m + capex savings of £677m = £1,577m
- ▶ Capex spend weighted to Q4

# 2009/10 outlook

Updated

|   |                 |               |
|---|-----------------|---------------|
| Revenue <sup>1</sup> decline                  | 3%-4%           |               |
| Capital expenditure                           | c.£2.6bn        | c.£2.5bn      |
| Total underlying cost <sup>2</sup> reductions | at least £1.5bn |               |
| EBITDA <sup>3</sup>                           |                 | c.£5.7bn      |
| Free cash flow <sup>4</sup>                   | at least £1.6bn | around £1.7bn |
| Net debt                                      | below £10bn     |               |
| Full year dividend                            | c.5% up         |               |

<sup>1</sup> before specific items

<sup>2</sup> underlying operating costs and capital expenditure

<sup>3</sup> before specific items and leaver costs

<sup>4</sup> before pension deficit payment of £525m but after the cash flows related to specific items

## A year on...

- ▶ Absolute cost savings
- ▶ Cash generation
- ▶ Transparency
- ▶ Predictability

**...a lot more to do!**

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## Q&A

