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.

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 BT’s markets; future regulatory actions and conditions in BT’s operating areas including competition from others; BT’s selection of the appropriate trading and marketing models for its products and services; technological innovations including the cost of developing new products, networks and solutions and need to increase expenditures for improving the quality of service; the anticipated benefits of new technologies, products and services not being realised; developments in the convergence of technologies; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; the timing of entry and profitability of BT in certain markets; significant changes in market shares for BT; fluctuations in foreign currency exchange rates and interest rates; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the BT Global Services restructuring programme not being achieved; the outcome of the Pensions Regulator’s review; and general global 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.
A better business

A better future

BT Group plc

Ian Livingston, Chief Executive
# Q2 2012 group results

<table>
<thead>
<tr>
<th>Metric</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue¹</td>
<td>2%</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td>0.4%</td>
</tr>
<tr>
<td>EBITDA¹</td>
<td>3%</td>
</tr>
<tr>
<td>Profit before tax¹</td>
<td>15%</td>
</tr>
<tr>
<td>EPS¹</td>
<td>10%</td>
</tr>
<tr>
<td>Free cash flow¹</td>
<td>£95m</td>
</tr>
<tr>
<td>Interim dividend</td>
<td>2.6p</td>
</tr>
</tbody>
</table>

¹ before specific items
Q2 2012 line of business overview

Global Services

<table>
<thead>
<tr>
<th></th>
<th>Q2 2012</th>
<th>Change¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£2,014m</td>
<td>1%</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td></td>
<td>3%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£159m</td>
<td>15%</td>
</tr>
</tbody>
</table>

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

¹ prior year restated for the impact of customer account moves
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

<table>
<thead>
<tr>
<th></th>
<th>Q2 2012</th>
<th>Change$^1$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,853m</td>
<td>(3)%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£445m</td>
<td>7%</td>
</tr>
</tbody>
</table>

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$^2$

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$^1$ 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 adds\(^1\)
  - 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

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\(^1\) 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 usage\(^2\) broadly flat over last two years
  - broadband net adds c.50% better YoY

- Profits up in H1

\(^1\) BT Business, including Northern Ireland
\(^2\) BT Business call minutes per working day per line
# Q2 2012 line of business overview

## Wholesale

<table>
<thead>
<tr>
<th></th>
<th>Q2 2012</th>
<th>Change¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£982m</td>
<td>(7)%</td>
</tr>
<tr>
<td>- underlying ex transit</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£305m</td>
<td>(6)%</td>
</tr>
</tbody>
</table>

## 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%

¹ prior year restated for the impact of customer account moves
## Q2 2012 line of business overview

### Openreach

<table>
<thead>
<tr>
<th></th>
<th>Q2 2012</th>
<th>Change¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,280m</td>
<td>4%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£567m</td>
<td>7%</td>
</tr>
</tbody>
</table>

### 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

¹ prior year restated for the impact of customer account moves
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

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1 All UK, not including cable
Fibre innovations on delivery

- **Soft dig process**
  - New spade can cut through tarmac
  - Eliminates need for separate civils team

- **Micro-trenching**
  - Faster deployment of fibre in environmentally sensitive areas
  - Lower civils costs

- **Mini DSLAM**
  - Provides cost effective coverage for low density areas and multi-dwelling units
  - Lower civils costs

- **Conductive concrete**
  - Cost effective option for meeting electrical safety needs
  - Lower civils costs

- **Polymer based plinth**
  - Faster, lower-cost all-weather deployment
  - Environmentally friendly

- **Power supply infrastructure**
  - Removes need for meter installation visit
  - Reduces deployment times by two weeks
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

<table>
<thead>
<tr>
<th>Metric</th>
<th>2012 Description</th>
<th>2013 Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying revenue ex transit</strong></td>
<td>- down 2% to flat</td>
<td>- to grow up to 2%</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>- growth</td>
<td>- above £6bn</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>- Above 2011 level in 2012 and 2013</td>
<td></td>
</tr>
</tbody>
</table>

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1. before specific items
2. before specific items and pension deficit payments

Performance reinforces outlook
## Income statement

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

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

\(^1\) before specific items
## Specific items

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

£3,606m

- £35m
- £55m
- £15m
- £40m
- £30m
- £203m

Transit
Operational

Q2 2011
FX & disposals
Milestone acceleration
Leavers
Gross labour cost
Capitalised labour
Other
Q2 2012

-4%
(-5% ex milestone acceleration)

£377m opex\(^1\) 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

- 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