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**Q3 2010/11 Results**

**3 February 2011**

# Forward-looking statements caution

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: full year and future outlook; BT Global Services' full year and future cash flow, and future revenue trends; the success of our broadband strategy; the improvement in line loss reductions, our fibre roll out programme; and reductions in operating costs.

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**Ian Livingston**

# Q3 2010/11 group results

<b>Revenue</b>	£5,038m	3%	
<b>EBITDA<sup>1</sup></b>	£1,484m	7%	
<b>EPS<sup>1</sup></b>	5.4p	32%	
<b>Free cash flow</b>			
- before specific items	£569m	up £43m	
- after specific items	£515m	up £210m	
<b>Net debt</b>	£8,674m	down £1,438m	

<sup>1</sup> before specific items

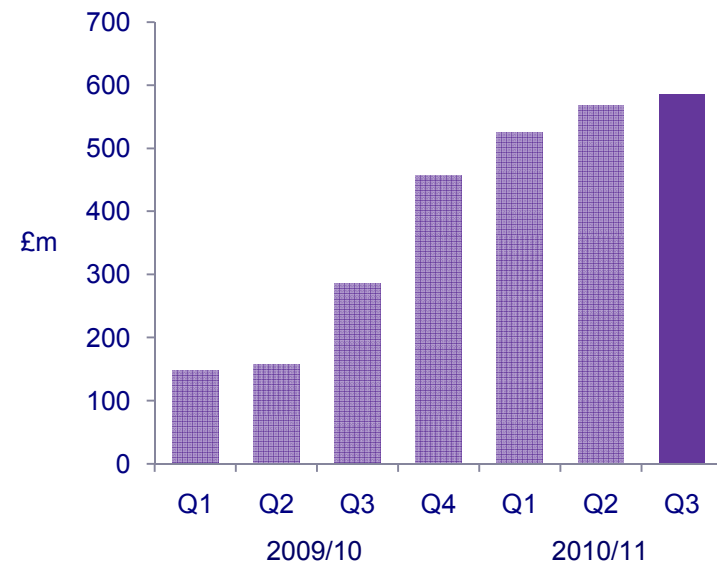
# Q3 2010/11 line of business overview

## Global Services

	Q3 2010/11	Change
Revenue	£1,974m	(7)%
EBITDA	£141m	15%

- ▶ Underlying revenue down 6%
  - decline in wholesale and MTRs
  - reduced UK calls & lines
  - one-off adjustment c.£20m
- ▶ Net operating costs down 8%
- ▶ EBITDA up 15%
- ▶ Operating cash inflow of £49m YTD
  - improved working capital
  - more even cash profile over year
- ▶ Order intake £1.7bn, up 8%

### Rolling 12 month EBITDA



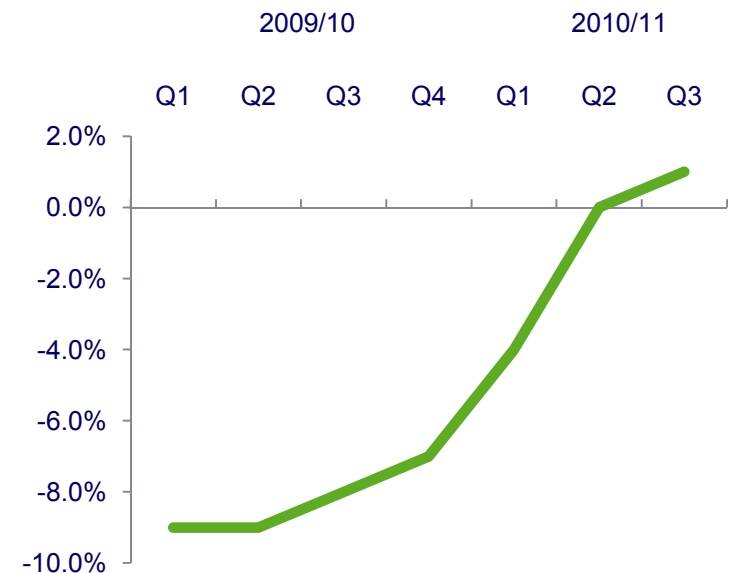
# Q3 2010/11 line of business overview

## Retail

	Q3 2010/11	Change <sup>1</sup>
Revenue	£1,967m	(3)%
EBITDA	£452m	4%

- ▶ Improving revenue trend
  - Consumer, Business & Enterprises all improved
  - Business up 1% driven by IT services and mobility
  - Consumer down 4% (Q2 down 6%)
- ▶ Net operating costs down 4%
  - 6% decline in labour costs
- ▶ All units grew profits

## BT Business YoY revenue change



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

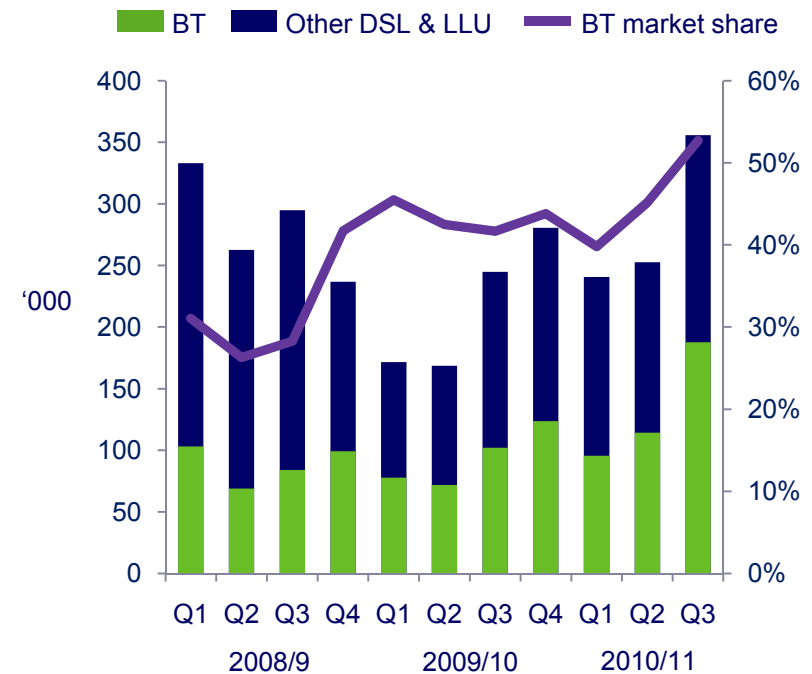
# Q3 2010/11 line of business overview

## Retail

- ▶ Active customer losses improved
  - 35% reduction QoQ
- ▶ Consumer ARPU up 7%
- ▶ 53% share of broadband net adds<sup>1</sup>
  - best share in 8 years
- ▶ Infinity
  - increased level of take up
  - Race to Infinity
    - 365,000 votes
    - 10 exchanges to be enabled
- ▶ BT Vision
  - increased net adds
  - new innovations

<sup>1</sup> DSL + LLU

## Broadband net adds



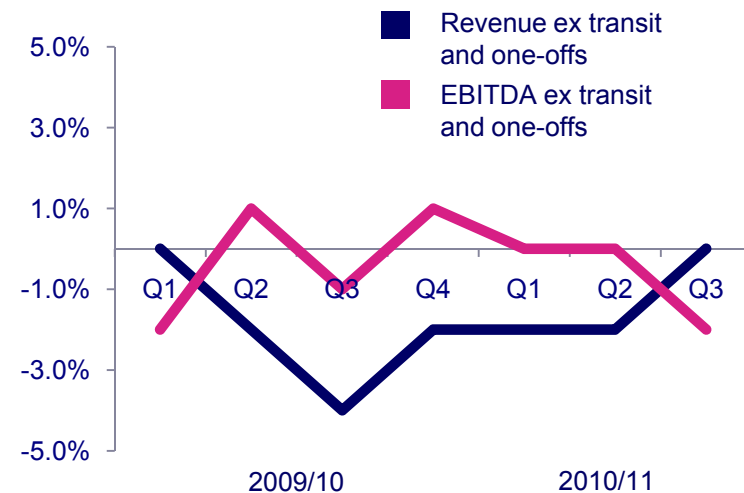
# Q3 2010/11 line of business overview

## Wholesale

	Q3 2010/11	Change
Adjusted revenue	£1,070m	flat <sup>1</sup>
EBITDA	£330m	(2)% <sup>2</sup>

- ▶ Managed network services revenue up 9%
- ▶ Net operating costs flat<sup>1</sup>
- ▶ IP Voice contract signed with KCOM Group

### Revenue and EBITDA trend



<sup>1</sup> prior year restated for customer account moves and adjusted for changes in the internal trading model

<sup>2</sup> prior year restated for customer account moves



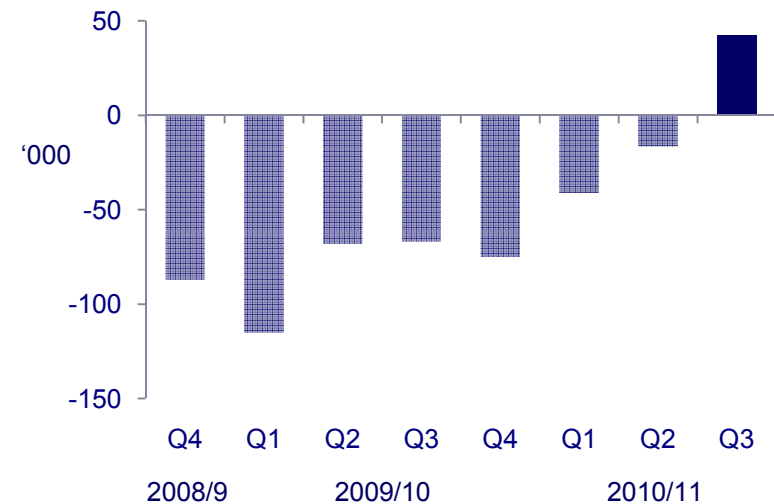
# Q3 2010/11 line of business overview

## Openreach

	Q3 2010/11	Change
Adjusted revenue	£1,240m	flat <sup>1</sup>
EBITDA	£550m	13%

- ▶ External revenue up 16%
  - end-user growth
  - PoP build out
- ▶ Growth in copper line base
- ▶ Net operating costs down 8%<sup>1</sup>, before leavers down 5%<sup>1</sup>
- ▶ Fibre roll out
  - weather impacted roll out, now progressing again at good pace

### QoQ change in total copper lines



<sup>1</sup> prior year adjusted for changes in the internal trading model

# Pensions

	<b>31 Dec 2009</b>	<b>31 Mar 2010</b>	<b>31 Dec 2010</b>
IAS 19 deficit (net of tax)	£6.4bn	£5.7bn	£2.7bn
BTPS assets	£33.8bn	£35.3bn	£36.4bn
BTPS liabilities (IAS 19)	£42.5bn	£43.0bn	£40.0bn
AA bond rate	5.65%	5.50%	5.40%
Real discount rate	2.08%	1.83%	1.98%

- ▶ Includes benefit from change to CPI
- ▶ Asset returns of c.7% real in 12 months to 31 December 2010
- ▶ £525m deficit payment made in December 2010
- ▶ Pensions Regulator review ongoing

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more progress

more to do

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**Tony Chanmugam**

# Key financials summary

£m	Q3 2010/11	Q3 2009/10	Change
▶ <b>Revenue</b>	<b>5,038</b>	<b>5,198</b>	<b>(3)%</b>
– down 2% excl. transit/MTRs			
▶ <b>EBITDA<sup>1</sup></b>	<b>1,484</b>	<b>1,386</b>	<b>7%</b>
– operating costs <sup>2</sup> reduced by £235m			
– lower leaver costs			

<sup>1</sup> before specific items

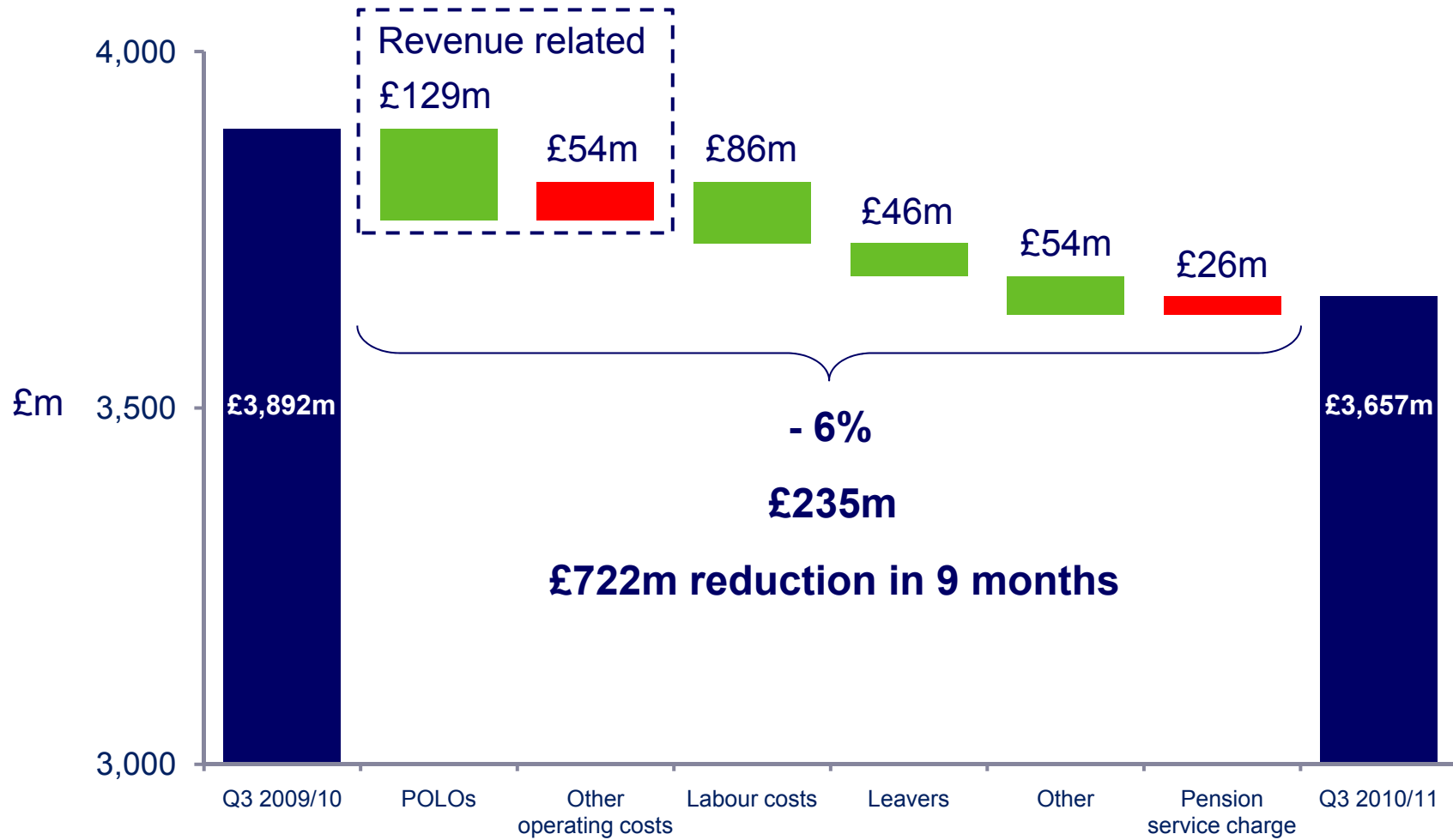
<sup>2</sup> before specific items, depreciation & amortisation and other operating income

# Key financials summary

£m	Q3 2010/11	Q3 2009/10	Change
<b>EBITDA<sup>1</sup></b>	<b>1,484</b>	<b>1,386</b>	<b>98</b>
Capex	(670)	(548)	(122)
Interest	(267)	(314)	47
Tax	(94)	(44)	(50)
Working capital/other	116	46	70
<b>Free cash flow before specifics</b>	<b>569</b>	<b>526</b>	<b>43</b>
Specific items	(54)	(221)	167
<b>Free cash flow after specifics</b>	<b>515</b>	<b>305</b>	<b>210</b>
<b>Net debt</b>	<b>8,674</b>	<b>10,112</b>	<b>1,438</b>

<sup>1</sup> before specific items

# Q3 2010/11 group cost reductions<sup>1</sup>



**c.£900m opex reduction in 2010/11**

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



# 2010/11 – 2012/13 outlook

- ▶ 2010/11
  - Revenue expected to be c.£20bn
  - Adjusted EBITDA<sup>1</sup> expected to be c.£5.8bn
  - Free cash flow<sup>2</sup> expected to be £2bn
- ▶ Global Services operating cash flow expected to be c.£100m in 2010/11 and c.£200m in 2011/12
- ▶ 2011/12 to 2012/13 outlook otherwise unchanged

<sup>1</sup> before specific items

<sup>2</sup> before pension deficit payment and cash specific items. Specific items are expected to result in cash outflow of around £200m in 2010/11



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**Q&A**