

BT GLOBAL SERVICES KEY MESSAGES Q3 RESULTS 10th FEBRUARY 2005

Financials

Third quarter (ending 31 Dec '04)

	<u>Q3</u>	<u>change</u>
BT Group turnover (a)	£4.58bn	+ 3.2%
EBITDA (b)	£1.45bn	- 3%
Profit before tax	£545m	+ 4%
Capital expenditure	£770m	+ 10%

(a) excluding impact of mobile termination cuts (b) before exceptionals and leaver costs

	<u>Q3</u>	<u>better</u>
Global Services	£1,543m	10%
EBITDA	£148m	11%
Operating profit	£9m	£31m improvement
Capital expenditure	£146m	up £31m

Key messages:

BT Global Services is increasingly recognised as a major force in global networked IT services

- BTGS continued to see quarter on quarter top line growth
- BTGS recorded its highest ever quarterly operating profit
- Market and analysts recognise the quality of the acquisition plans announced in Q3 (Infonet, Radianz and Albacom);
- BTGS continues to outperform its competitors and achieves greater international scale through a balanced combination of organic and inorganic growth;
- Ongoing decrease of revenue and profitability are forcing competitors to engage in disruptive large scale consolidations (AT&T-SBC) or fundamental strategy reviews (Equant and others);
- BTGS focus on vertical sectors such as pharmaceuticals, government and financial institutions is bringing in increased revenue;

While trading conditions remained tough, turnover for the quarter has increased by 10% compared to 9% at Q2

- Solutions grew by 17% reflecting conversion of the underlying order book;
- Consulting and Systems Integration (C&SI) produced strong turnover growth for another quarter, with the NHS contracts contributing towards the growth of 27 per cent;
- Global Products turnover grew by 3 per cent having benefited from continuing growth in Multi Protocol Label Switching (MPLS) products (MPLS revenues up 32% compared to last year - new MPLS ports growing at over 2,000/month in UK and rest of world on average during last 12 months).
- Solutions and C&SI achieved orders of £1.2 billion in the quarter which results in orders of £5.7 billion over the last twelve months;
- Global Carrier turnover fell by 3 per cent reflecting the anticipated decline in AT&T revenues plus a reduction in mobile termination rates throughout Europe.

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EBITDA up 11% at £148million

- Driven mainly by a 38% rise in Global Products;

Operating PROFIT at £9million

- Global Services records its highest ever quarterly operating profit. At £9 million, it is a £31 million improvement on the loss reported in Q3 last year;
- Operating free cash this quarter is £2 million positive, in contrast to the outflows reported in the previous two quarters;
- Improvements in all business units
- Operating costs included the expected increase in resources associated with strengthening the international network centric solutions delivery capabilities
- We expect the underlying cost efficiency in Global Services will continue to improve.

Capital expenditure up £31 million

- Capital expenditure in the quarter at £146 million increased by £31 million mainly due to expenditure on the NHS contracts.

From next April, the Major Business unit currently in Retail will be accounted for in Global Services, bringing all of BT's offers to large organisations under a single umbrella

Organic and inorganic growth strengthening BT's global leadership position in the digital networked economy

- Acquisition of full control of Albacom
 - BT has been committed to the Italian business communications market, and to serving the needs of Italian corporates within the country and internationally, since it established Albacom in 1995.
 - 100% ownership will allow BT to offer a seamless service to its customers in Italy, both domestically and internationally, taking full responsibility for products delivered on an end-to-end basis.
 - BT expects the transaction to bring visible benefits to Albacom's customers, allowing them to benefit from the full suite of BT's products and services and its increased focus on network-based IT services.
 - This move reflects BT's strategy of establishing a pan-European presence to service multi-site organisations, with strong local operations in key countries.
 - The acquisition has been completed on Feb 04.

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- Purchase of Infonet expected to boost BT's position as a global leader for IT and networking services:
 - Infonet has operations in 70 countries, network access in 180, over 1,800 multi-national customers and a strong reputation for high quality, best in class services
 - Purchase price of £520 million but costs £310 million net of cash
 - Enhances capability in North America and Asia Pacific
 - US regulatory clearance secured in December and EU regulatory clearance secured in January – Infonet shareholder assembly scheduled for February 23.

ICT order book £1.2 billion for the quarter

- During the period, more than 47 Solutions wins were valued between £1 million and £2 million
- The success drives continued growth in new wave businesses
- Total ICT orders won in the last 12 months are worth £5.7 billion

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BTGS key wins during Q3

Customer name	Contract Value	Contract length (yrs)	Description of solution
Barclays	Not announced	7 yrs	WAN & LAN services over IP network
Customs and Excise	£28.7m	3yrs	BT's extension to its contract with HM Customs and Excise (HMCE) to supply, operate and manage the Customs Handling of Import and Export Freight (CHIEF) service.
European Institutions	€72m (estimate)	4 yrs	The new contract covers the provision of IP-based managed wide area network services (WAN), remote access services (RAS), teleworking services (TW), internet fallback services (IFB) and network consultancy.
GIBO Group	€3.9m Eur	5yrs	Outourcing and centralisation and management of their entire IT infrastructure. From their data centre in Nieuwegein, BT manages the complete automation, including business-critical applications
Hays	£15m	5.5yrs	BT will consolidate the company's multiple European networks and its existing UK IP network onto a single Wide Area Network (WAN). The upgraded infrastructure, extends to 225 sites in six European countries.

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Intentia	Not announced	3yrs	BT will manage Intentia's mobility services in all countries where more than 100 mobile phones are used in the company. The goal is to substantially reduce the total costs of mobile services and improve cost control. BT will supply Intentia with services and tools that measure and evaluate mobile traffic. BT will also analyse contracts and negotiate with local operators, while controlling call traffic within and between countries.
International SOS	£1.3m	5 yrs	BT will provide global MPLS network services supporting voice and data
Mitsui Tokyo	Not announced	Not announced	voice trading technology from BT to upgrade its Commodity Trading and Risk Management Division in Tokyo.
NATO	Not announced	5yrs	Private Line
Neos Networks	£30m	5 yrs	Mgt of Neo Networks private circuit base, strategic network consultancy, mgd billing and contract mgt. In addition, the contract covers the upgrade, programme management and support of all SSE's call centre estate.
NHS London PACS	£102m	10 yrs	Picture Archiving System for London. PACS is a picture archiving and communication system roll out for London - it will allow images such as x-rays and scans to be stored and transferred electronically
Northern Ireland Housing Exec	over £30m	11 yrs	Strategic ICT partnership - BT will be implementing and supporting a new infrastructure to provide a platform for the NIHE's Modernising Services initiative
Prontocom Marketing, Inc.	\$ 5.87m	3yrs	Business voice / voice ports

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Quality Telecom SA	€6.762m	2yrs	118xx service. BT has to implement some E1, speak with Telefonica and mobile operator etc...
Registers of Scotland	£78m		BT will deliver both current IT services and also projects that RoS sees as key to its future development. RoS and BT will work together to deliver a business transformation programme aimed at improving the Agency's internal processes as well as enhancing external products and services to the Agency's customers.
Thales	Not announced	5yrs	outsourcing contract - fixed voice and data network services for THALES and its subsidiaries in 42 countries
TPS	Not announced	3yrs	BT will provide an innovative media management and playout service for its recently-acquired UK Premier League football coverage. BT will capture the live footage as it passes through its International Media Centre (IMC) at BT Tower in London.
TV5	multi-million pound	5yrs	Continuity of service of TV5's analogic signal. This contract covers analogue broadcasting of TV5's programs over Europe, by BT Broadcast Services, BT's broadcast and media solutions arm.
United Utilities	Not announced	Not announced	contact centre with contract central
Visa Europe	multi-million pound	5yrs	roadmap that will include technology upgrades to ensure that Visa's members benefit from next generation technologies and services.
WVEN-TV / Entravision Communications Corporation	Not announced	Not announced	BT Satnet unit, BT's fully automated satellite network system