## Transformation - the results - 2004-2005

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group turnover</td>
<td>£18.6bn</td>
<td>2%*</td>
</tr>
<tr>
<td>Earnings per share**</td>
<td>18.1p</td>
<td>7%</td>
</tr>
<tr>
<td>Full year dividend</td>
<td>10.4p</td>
<td>22%</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>£2.3bn</td>
<td>10%</td>
</tr>
</tbody>
</table>

* Adjusted for the impact of mobile termination cut and excludes revenues from Albacom and Infonet

** Before exceptional items and goodwill
Our strategy for transformation

Defend traditional
- Improved service
- Price innovation
- Reduce costs / improve margin
- Aggressive & creative marketing

Long term partnership with our customers

Transformation - 21st Century Network

Grow new wave
- ICT
- Broadband
- Mobility
Transforming turnover - 2004-2005

<table>
<thead>
<tr>
<th></th>
<th>FY 03/04</th>
<th>FY 04/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>14.7</td>
<td>14.0</td>
</tr>
<tr>
<td>Revenue*</td>
<td>3.4</td>
<td>4.5</td>
</tr>
</tbody>
</table>

* Adjusted for the impact of mobile termination cut & excludes revenues from Albacom & Infonet

New wave: +2%
Traditional: +32%

-5%
Transforming dividends - 2001-2005

* Earnings per share
* Dividend

- Earnings doubled over 3 years
- 5X growth in dividend over 3 years

* Before exceptional items and goodwill from continuing activities
Transforming debt - 2001-2005

Reduced by £20bn since March 2001

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 01</td>
<td>£27.9bn</td>
</tr>
<tr>
<td>March 02</td>
<td>£13.7bn</td>
</tr>
<tr>
<td>March 03</td>
<td>£9.6bn</td>
</tr>
<tr>
<td>March 04</td>
<td>£8.4bn</td>
</tr>
<tr>
<td>March 05</td>
<td>£7.8bn</td>
</tr>
</tbody>
</table>
How we used free cash flow

FY 03/04
Free cash flow
£2,071m

- Debt reduction
- Dividend 31%
- M&A
- Share buyback 7%

FY 04/05
Free cash flow
£2,282m

- Debt reduction
- Dividend 34%
- M&A
- Share buyback 8%
Share price performance

BT share price performance versus FTSE 100 and European Telco Indices (1 Apr 04 - 30 Jun 05)
Other highlights

- Proposed regulatory settlement
- Board changes
- BT becomes world’s leading purchaser of green energy
- In the community:
  - Major response to Tsunami disaster
  - Continuing support for education and ChildLine
  - Ranked top telecoms company in Dow Jones Sustainability Indices
In the LAST three years we have...

- Built new wave services into a £4.5bn per annum business
- Delivered Broadband Britain
- Won networked IT orders valued at > £18bn
- Reduced customer dissatisfaction by 54%
- Re-established ourselves in the mobile market
- Taken > £1bn of costs out of the business
- Reduced net debt to < £8bn
- Returned over £2bn to shareholders
- Delivered a compound annual growth rate of > 25%
inearnings per share & > 70% in dividend

...transformation HAS delivered
Convergence creates further opportunities...

Comms & IT
Fixed & Mobile
Networks & Services
Networked IT services (ICT)
BT & Wireless Mobility
Broadband & 21CN

...for the next 3 years
New Wave - record of delivery

<table>
<thead>
<tr>
<th></th>
<th>FY 02/03</th>
<th>Q1 2003/04</th>
<th>Q2 2003/04</th>
<th>Q3 2003/04</th>
<th>Q4 2003/04</th>
<th>Q1 2004/05</th>
<th>Q2 2004/05</th>
<th>Q3 2004/05</th>
<th>Q4 2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change (%)</td>
<td>+20%</td>
<td>+23%</td>
<td>+25%</td>
<td>+31%</td>
<td>+38%</td>
<td>+32%</td>
<td>+36%</td>
<td>+35%</td>
<td>+27%</td>
</tr>
</tbody>
</table>
New Wave - the foundation of growth

- Mobility & other: +143%
- Broadband: +292%
- Networked IT: +39%
Networked IT – a growing order book

**Why customers choose BT:**
- Targeted propositions
- Proven capability
- Global reach and account management
- World-class partners

**Key wins in 04/05 include:**
- Bristol-Myers Squibb - management of global network
- Reuters - up to £1.5bn over 8½ years
- 120 Solutions contracts - between £1m and £5m each
BT Global Services - moving into profit

- Two or more new customers signed each working day during Q4 of 04/05
- Annual revenue in 04/05 £6.4bn, up 10%
- Strategic acquisitions, including:
  - Leading business network provider - $550m+
    revenue - 1,800 customers
  - Top Italian business communications provider - €650m+
    revenue in 04/05
  - Leading provider of communications for financial services market

Operating Profit turnaround

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 01/02</th>
<th>FY 02/03</th>
<th>FY 03/04</th>
<th>FY 04/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>(£100m)</td>
<td>(£200m)</td>
<td>(£300m)</td>
<td>(£400m)</td>
</tr>
<tr>
<td>Improvement</td>
<td></td>
<td></td>
<td></td>
<td>(£550m)</td>
</tr>
</tbody>
</table>

Improvement of >£500m
Broadband - a record of achievement

**BT Wholesale**
- 5 millionth UK broadband connection in April ONE YEAR early
- Broadband coverage of 99.6% by end of this summer

**BT Retail**
- 1.7m broadband subscribers at end March - 81% higher than March 04
- Had 29% market share of net new connections in 2004-05
Mobility - more than just mobile

- Full year turnover grew > 100% to £205m
- Mobile service connections grew 31k in Q4 to 372k (post pay)
- Subscriber base has grown 157% on last year
- Machine to machine services
  - monitoring, RFID and telemetry services
- ‘WiFi’ services
  - Private and Public (BT Openzone) Wireless Local Area Networks

Positioning BT to deliver converged services
BT Fusion - fixed and mobile services converge

- BT landline rates at home or office - competitive mobile bundled minutes out and about
- Free BT Fusion Motorola v560 phone, flip phone with large colour display, video and camera
- Free BT Hub to wireless network the home
Traditional turnover*

-1.0% FY 02/03

-4.8% Q3 2003/04

-5.8% Q4 2003/04

-4.6% Q3 2004/05

-4.9% Q4 2004/05

* Adjusted for the impact of mobile termination cut
Q4 04/05 - Call revenues - £202m decrease year on year

Market share
- Business down 0.4%
- Consumer down 1.1%

Rebalancing to lines and other services

Fixed voice market
Volume and price reductions

Dial IP Broadband substitution

£62m
£52m
£46m
£42m
Cost Leadership

From 01/02 to 03/04:
• BT Global Services operational cost savings £400m
• BT Wholesale cash cost savings £500m
• BT Retail selling, general and administrative savings £800m

In 04/05:
• Overall cost saving programmes £400m

From 05/06 to 08/09:
• Further savings from efficiency programmes £300m - £400m per annum for next 3 years
Proposed new regulatory settlement

- Bold proposals from BT
- Regulate Access Services
- Deregulate elsewhere
In the **NEXT** three years we will...

- **Continue to grow revenues**
- **Continue to reduce costs in traditional**
- **Continue to deliver innovation for customers**
- **Continue to improve new wave margins**
- **Continue to unlock opportunities of convergence**

...drive **GROWTH** in EPS and Dividends